DEPARTMENT OF NATIONAL REVENUE
CUSTOMS AND EXCISE
CANADA

FREE TRADE AGREEMENT

AN EXPLANATION OF THE REGULATIONS RESPECTING THE ORIGIN OF GOODS FOR DETERMINING ENTITLEMENT TO THE UNITED STATES TARIFF

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INTRODUCTION:

The purpose of this memorandum is to explain the requirements that must be fulfilled in order for goods exported to Canada from the United States to be entitled to the benefit of the United States Tariff. In this respect, reference is made to Chapters 2 and 3 of the Canada-U.S. Free Trade Agreement, Subsection 25.2 (6) of the Customs Tariff and the United States Tariff Rules of Origin Regulations (Customs Memorandum D11-4-12).

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1. DEFINITIONS

In this memorandum and related appendices,

"Canada" has the same meaning as in section 2 of the Customs Act and includes the continental shelf of Canada, as defined in section 2 of the Customs and Excise Offshore Application Act;

"goods" does not include casual goods as defined in the United States Tariff Rules of Origin for Casual Goods Regulations;

"goods wholly obtained or produced in the territory" means

(a) mineral goods extracted in the territory,

(b) goods harvested in the territory,

(c) live animals born and raised in the territory,

(d) goods such as fish, shellfish and other marine life taken from the sea by a vessel registered or recorded with Canada or the United States and flying the flag of Canada or the United States, as the case may be,

(e) goods produced on board a factory vessel from goods referred to in paragraph (d) where the vessel is registered or recorded with Canada or the United States and flies the flag of Canada or the United States, as the case may be,

(f) goods taken by Canada, the United States or a person of the territory from or beneath the seabed outside the territorial sea of Canada or the territorial waters of the United States, as the case may be, where Canada or the United States, as the case may be, has the right to exploit the seabed or the area beneath that seabed,

(g) goods taken from space, where the goods are obtained by Canada, the United States or a person of the territory and not processed in a third country,

(h) waste and scrap derived in the territory from manufacturing operations and used goods, where the waste, scrap and used goods are collected in the territory and are fit only for the recovery of raw materials, and

(i) goods produced in the territory exclusively from goods referred to in paragraphs (a) to (h) or from their derivatives, at any stage of production;

NOTA BENE: The operations which create the waste and scrap per criterion (h) above must be performed in the territory in order for the waste and scrap to be considered as wholly of territorial origin. However, the used goods need not have been used in the territory to be so considered.

"intermediate materials" means materials which are articles of commerce in their own right and which are made by the producer of the goods exported to Canada and used in the production of such goods.

"materials" or "sub-materials" means goods used or consumed in the production of any other goods, other than those goods included in the calculation of the direct cost of processing or the direct cost of assembling;

"national" means an individual who is a citizen or permanent resident of Canada or the United States and, in respect of the United States, includes a national of the United States as defined in the United States Immigration and Nationality Act in effect on the day of the coming into force of the Canada-United States Free Trade Agreement;

"packaging" means the operation of placing goods into a container or holder for the purpose of retail sale;

"packing" means covering, wrapping or securing goods in order that they may be safely shipped, transported or exported;

"person of the territory" means a national or an enterprise constituted under the laws of, or principally carrying on its business within, the territory;

"Schedule" means the Schedule to the United States Tariff Rules of Origin Regulations.

"territorial sea of Canada" means the territorial sea as determined in accordance with the Territorial Sea and Fishing Zones Act;

"territorial origin" means originating in Canada, the United States or both, in accordance with the United States Tariff Rules of Origin Regulations;

"territory" means Canada, the United States or both, as the case may be;

"third country" means any country other than Canada or the United States and includes the Virgin Islands, Guam or any other area over which the Government of the United States exercises similar jurisdiction;

"United States" has the same meaning as in section 2.1 of the Customs Tariff.

2. PROOF OF ORIGIN:

In order for goods to be entitled to the benefit of the United States Tariff, proof of origin must be given (paragraph 25.2 (6) (a) of the Customs Tariff). The documentation requirements for commercial goods where United States Tariff treatment is claimed are set forth in the Proof or Origin Regulations (Customs Memorandum D11-4-2).

3. DIRECT SHIPMENT REQUIREMENT:

In order to be entitled to the benefit of the United States Tariff, goods must be shipped directly to Canada from the United States, with or without trans-shipment (paragraph 25.2 (6) (c) of the Customs Tariff). The direct shipment provisions may be found in sections 17 and 18 of the Customs Tariff.

4. ORIGIN OF GOODS REQUIREMENTS:

In order to be entitled to the benefit of the United States Tariff, goods must originate in the United States in accordance with one of the following criteria:

A. Goods originate in the United States if they are wholly obtained or produced in the territory. Thus, no third country is involved in obtaining or producing them. See the Definitions section of this memorandum for details of nine categories, (a) to (i), for identifying goods as wholly obtained or produced in the territory.

B. Goods also originate in the United States, although not wholly obtained or produced in the territory, providing that:

(a) the goods are processed or assembled in the territory wholly or in part from third country materials;

(b) the goods meet the applicable requirements set forth in the Schedule (this is explained in section 6 below);

(c) the processing or assembling which causes a change in tariff classification as described in the Schedule takes place entirely in the territory; and

(d) the goods have not undergone any processing or assembling in a third country subsequent to the processing or assembling in the territory.

C. Goods also originate in the United States, even though they do not meet the applicable requirements of the Schedule, providing that:

(a) the goods are not the goods described in Chapters 61 to 63 of Schedule 1 to the Act (apparel, textile articles, clothing accessories);

(b) the goods undergo an assembly operation in the territory and are classified under the same tariff sub-heading prior to and subsequent to such assembly by reason that the goods, when imported into the territory, were classified as unassembled or disassembled goods pursuant to paragraph 2 (a) of the "General Rules for the Interpretation of the Harmonized System" as set out in Schedule 1 of the Customs Tariff, or the subheading under which the goods are classified provides for the goods and their parts;

(c) the value of materials originating in the territory which were used or consumed in the production of the goods plus the direct cost of assembling the goods in the territory constitute not less than 50 percent of the value of the goods when exported to Canada. Value of materials, direct cost of assembling and value of the goods are explained in sections 8, 9 and 10 below; and

(d) the goods have not undergone any processing or further assembly in a third country subsequent to assembly in the territory.

5. QUALIFICATIONS TO THE ORIGIN OF GOODS REQUIREMENTS:

(1) Notwithstanding the Origin of Goods Requirements set forth in criterion B and criterion C of section 4 above, goods are not goods originating in the United States and are not entitled to the benefit of the United States Tariff if the only operations which the goods have undergone in the territory consist of one or more of the following:

(a) packaging or, unless expressly provided for in the Schedule, combining operations;

(b) dilution with water or any other substance that does not materially alter the characteristics of the goods; and

(c) any alteration or process that was undertaken for the sole purpose of circumventing the United States Tariff Rules of Origin Regulations.

This provision is explained in Appendix V.

(2) Standard accessories, spare parts or tools are deemed to be of the same origin as the equipment, machinery, apparatus or vehicle to which they belong for the purpose of the application of the United States Tariff, providing that:

(a) the standard accessories, spare parts or tools are accounted for at Canadian Customs at the same time as the equipment, machinery, apparatus or vehicle;

(b) the quantities and values of the standard accessories, spare parts or tools are customary for such equipment, machinery, apparatus or vehicle.

This provision is explained in Appendix VI.

(3) When making the calculations for the percentage of territorial content by dollar value, the materials whose values are charged to the territorial content must be materials which actually originate in the territory in accordance with the Origin of Goods Requirements set forth in section 4 above and not a third country substitute for such materials. However, when a producer in the territory sources the same materials both in the territory and in a third country to produce goods in the United States, a separate inventory system to account for the third country materials and the territorial materials need not be maintained providing that the appropriate costs are allocated to goods exported to Canada in accordance with recognized accounting principles.

6. SCHEDULE TO THE UNITED STATES TARIFF RULES OF ORIGIN REGULATIONS

(1) The Schedule consists of rules which apply to goods classified under each of the commodity sections of Schedule 1 to the Customs Tariff. In order to use the Schedule, one must first determine the tariff classification of the goods exported to Canada and of the materials used to produce the goods, then refer to the rules in the appropriate commodity section. An explanation of each of the rules is contained in Appendix I.

(2) For the most part, the rules consist of changes in tariff classification resulting from the processing/assembling in the territory of third country materials into goods exported to Canada. For the purpose of this Schedule, "change" means that the materials have been sufficiently transformed in the territory so as to result in a change in tariff classification. Also, a specific Rule takes precedence over a general Rule. Thus, for instance, while Rule 1 of Section XII covers goods of any chapter of Section XII which have been produced within the territory from third country materials of any other chapter in the Tariff, including another chapter of Section XII, Rule 2 of Section XII takes precedence over Rule 1 when

the goods exported to Canada are classified in subheadings 6401.10 through 6406.10 regardless of which chapter in the tariff provides for the materials (leather of 4101.10 to footwear of 6401.10 would be subject to Rule 2). Also, Rule 3. a) of Section XVII takes precedence over Rule 1 of Section XVII when the third country materials are classified in a parts heading anywhere in the Tariff.

(3) Other requirements in the Schedule are as follows:

a) Certain of the tariff classification change rules have a further qualification to the effect that the value of materials originating in the territory which were used or consumed in the production of the goods shipped to Canada plus the direct cost of processing performed in the territory must constitute not less than 50 per cent (70 per cent in one case) of the value of the goods when exported to Canada. (This same formula applies to the assembling operations referred to in criterion C of the Origin of Goods Requirements in section 4 above). See sections 8, 9 and 10 below for details of what constitutes value of materials, direct cost of processing and value of goods, and Appendix II regarding how the territorial content is determined.

NOTA BENE: Even though only one of the materials incorporated into the goods under consideration is subject to a rule which has a territorial content requirement, all materials must be considered in determining whether this requirement is met.

b) Certain special conditions apply to specified goods as follows:

- agricultural and horticultural goods grown in the United States (Section II, Rule 1);

- fruit, nut and vegetable preparations of Chapter 20 (Section IV, Rule 5);

- fruit juice mixtures and vegetable juice mixtures (section IV, Rule 6);

- goods classified under Tariff heading 38.08 (Section VI, Rule 15);

- goods classified in Chapters 61, 62 and 63 (Section XI, Rules 14, 15 and 16);

- goods classified in Chapters 61 and 62 and not entitled to United States Tariff treatment pursuant to Rules 14 and 15 of Section XI (Section XI, Rule 17);

- goods such as fans, feather dusters and feather apparel fabricated from feathers (Section XII, Rule 5);

- pearls, temporarily or permanently strung (Section XIV, Rule 2);

- goods classified under heading 73.08 (Section XV, Rule 9);

- vehicles classified under headings 87.01 through 87.05 (Section XVII, Rule 4); and

- goods classified under headings 91.01 through 91.07 (Section XVIII, Rule 4).

7. APPLICATION OF THE SCHEDULE:

(1) This Schedule is applicable when a material (or materials) imported from a third country is processed or assembled in the United States into goods exported to Canada and such processing or assembling results in a change or changes in tariff classification from the third country material or materials to the goods exported to Canada (Exception: No tariff classification change in Section XII, Rule 5 - feathers).

(2) When more than one third country material is involved, an appropriate rule in the Schedule qualifying the goods for United States Tariff treatment must apply in respect of the processing or assembling of each material into the goods shipped to Canada. The following example demonstrates this point:

- Materials X & Y are imported into the United States from West Germany and processed with material Z, which is made in the United States, into goods G which are then exported to Canada.

- Classifications - Material X - heading 65.01 (hat bodies)
  Y - heading 50.07 (woven silk fabrics)
  Z - heading 65.07 (linings)
  Goods G - heading 65.03 (felt hats)

- The goods qualify for United States Tariff treatment by reason of Rule 3 in Section XII. If, however, material Z was imported from a third country, the goods would not so qualify because the heading for Z is within the group specified in Rule 3.

(3) In cases where a material used to produce goods exported to Canada was made in the territory in whole or in part from one or more sub-materials of third country origin, and the tariff classification change from the material to the goods does not entitle the goods to United States Tariff treatment, regard is had for the tariff classification change (or changes) from the sub-material (or sub-materials) to the the material in order to determine whether such material qualifies as originating in the territory. Example 3 in Appendix IV demonstrates this point.

(4) When one or more of the materials used to produce the goods exported to Canada is an intermediate material as defined in section 1, and there is a 50 percent or 70 percent content requirement, the origin of the intermediate material must be determined. If the intermediate material qualifies as of territorial origin, the purchase prices by the producer of the goods exported to Canada of all of the sub-materials used to produce the intermediate material, regardless of origin, are considered to be part of the value of materials originating in the territory for the purpose of determining the territorial content of the goods. Example 6 in Appendix IV demonstrates this point.

8. VALUE OF MATERIALS ORIGINATING IN THE TERRITORY means the aggregate of:

(1) the price paid by the United States producer of goods exported to Canada for all of the materials originating in the territory and processed or assembled in the United States into such exported goods;

(2) the price paid by the United States producer of goods exported to Canada for all of the sub-materials, regardless of origin, which were processed or assembled into materials originating in the territory and which, in turn, were processed or assembled in the United States into the goods exported to Canada; and

(3) the following costs, where those costs are not included in subsections (1) and (2), in respect of the materials or sub-materials referred to in those subsections, namely,

(i) freight, insurance, packing and any other cost incurred in the transportation of those materials to the premises of the producer of the exported goods;

(ii) duties, taxes and brokerage fees paid in the territory in respect of those materials;

(iii) the cost of waste or spoilage resulting from the use or consumption of the materials, less the value of renewable scrap or by-products; and

(iv) the value of goods and services relating to the materials determined in accordance with subparagraph 1(b) of Article 8 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade (see Appendix II for details).

9. DIRECT COST OF PROCESSING OR DIRECT COST OF ASSEMBLING means the aggregate of the costs that are directly incurred in, or can be reasonably allocated to, the production of goods, including:

(a) labour costs, including benefits and on the job training costs, paid in respect of the production of the goods, and wages and payments in respect of supervision, quality control, shipping, receiving, storing, packaging and management at the premises where the goods are processed or assembled, whether provided by employees or independent contractors;

(b) the cost of inspecting and testing the goods;

(c) the cost of energy, fuel, dies, molds and tooling that originate in the territory or in a third country;

(d) the cost of maintenance and the capital cost allowance, determined in accordance with the Income Tax Act and the Regulations made under that Act, on machinery and equipment that originate in the territory or a third country.

(e) development, design and engineering costs;

(f) rent, mortgage interest and capital cost allowance, determined in accordance with the Income Tax Act and the Regulations made under that Act, on the buildings, and property insurance premiums, maintenance, taxes and the cost of utilities for real property used in the production of the goods; and

(g) royalty, licensing or other similar payments for the rights to the goods.

The direct cost of processing or the direct cost of assembling does not include:

(h) costs relating to the general expense of doing business, such as the costs of providing executive, financial, sales advertising, marketing, accounting and legal services and insurance other than the insurance referred to in paragraph (f) above or paragraph (m) below;

(i) brokerage fees relating to the importation and exportation of goods;

(j) communication costs, including telephone and postal costs;

(k) costs of packing the goods for exportation;

(l) royalty payments related to a licensing agreement to distribute or sell the goods;

(m) rent, mortgage interest and capital cost allowance, determined in accordance with the Income Tax Act and the Regulations made under that Act, on the buildings, and property insurance premiums, maintenance, taxes and the cost of utilities for real property used for purposes other than the production of the goods; and

(n) profits on the goods.

10. VALUE OF GOODS EXPORTED TO CANADA means the aggregate of:

(1) the price paid by the United States producer of goods exported to Canada for all of the materials processed or assembled into such exported goods and for all of the sub-materials used to produce materials which were processed or assembled into such exported goods, regardless of their origin;

(2) the following costs, where those costs are not included in subsection (1), in respect of the materials referred to in that subsection, namely,

(i) freight, insurance, packing and any other cost incurred in the transportation of those materials to the premises of the producer of the exported goods;

(ii) duties, taxes and brokerage fees paid in the territory in respect of those materials;

(iii) the cost of waste or spoilage resulting from the use or consumption of the materials, less the value of renewable scrap or by-products; and

(iv) the value of goods and services relating to the materials determined in accordance with subparagraph 1(b) of Article 8 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade (see Appendix II for details); and

(3) the direct cost of processing or the direct cost of assembling the goods (see above).

11. PRICES PAID BY THE PRODUCER OF EXPORTED GOODS FOR MATERIALS AND SUB-MATERIALS

(1) For the purposes of sections 8 and 10 above, the price paid by the producer of goods exported to Canada for any material or sub-material used to produce the goods means

(a) the price paid or payable by the producer for the materials in an arm's length transaction; or

(b) in any other case, the price at which the producer would ordinarily have purchased the materials in an arm's length transaction at the time when and the place from which the materials were shipped to the producer.

(2) For the purpose of subsection (1),

(a) a transaction entered into between related persons, as described in subsection 45(3) of the Customs Act, is not an arm's length transaction unless the relationship between those persons did not affect the price paid or payable; and

(b) it is a question of fact whether

(i) a transaction is entered into between related persons, as described in subsection 45(3) of the Customs Act,

(ii) the relationship between related persons, as described in subsection 45(3) of the Customs Act, affected the price paid or payable, and

(iii) persons who are not related persons, as described in subsection 45(3) of the Customs Act, entered into an arm's length transaction.

3. Essentially, therefore, for the purposes of sections 8 and 10 above, the amounts taken as the prices paid by the United States producer of goods exported to Canada for the materials and sub-materials is based on the values for duty of such materials and sub-materials as determined in accordance with the provisions of sections 44 to 56 of the Customs Act.

EXPLANATION OF THE TARIFF CLASSIFICATION

RULES OF ORIGIN

SECTION I (CHAPTERS 1 TO 5)

Live Animals; Animal Products

1. Goods of any chapter of Section I, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section I, are eligible for United States Tariff treatment (e.g., from live poultry of Chapter 1 to meat of poultry of Chapter 2).

   However, Section I goods, whose production within the territory from third country materials results only in a tariff classification change within one of the chapters of Section I, are not eligible for United States Tariff treatment. This means that processing operations resulting in changes of classification within any chapter of Section I do not confer territorial origin on goods (e.g., from fresh meat of 02.01 to edible flours and meals of meat of 02.10 or from whey of 04.04 to cheese of 04.06).

SECTION II (CHAPTERS 6 TO 14)

Vegetable Products

1. Goods of any chapter of Section II, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section II, are eligible for United States Tariff treatment (e.g., from cereal grains of Chapter 10 to cereal flours of Chapter 11).

   However, Section II goods, whose production within the territory from third country materials results only in a tariff classification change within one of the chapters of Section II, are not eligible for United States Tariff treatment. This means that processing operations in the territory resulting in changes of classification within any chapter of Section II do not confer territorial origin on goods (e.g., from apples of 08.08 to dried fruit of 08.13).

   An exception to this rule is that agricultural and horticultural goods grown in the territory from seed or bulbs imported from a third country are eligible for United States Tariff treatment. For instance, if dormant daffodil bulbs of 0601.10 are imported from a third country to be grown in the United States, the bulbs in growth or in flower (0601.20) are eligible for the United States Tariff treatment when imported to Canada.

2. Subheadings 0901.12 through 0901.40 provide for decaffeinated coffee, not roasted; for roasted coffee whether or not decaffeinated; and for certain other coffee products. Goods of any of these subheadings, which have been produced within the territory from third country materials of any other subheading in the tariff, including these five, are eligible for United States Tariff treatment (e.g., from coffee, not roasted, not decaffeinated, of subheading 0901.11, to roasted coffee, not decaffeinated, of 0901.21 and from roasted coffee, not decaffeinated of 0901.21 to roasted coffee, decaffeinated, of 0901.22). This means that decaffeination and roasting processes performed in the territory confer territorial origin on coffee.

SECTION III (CHAPTER 15)

Animal or Vegetable Fats and Oils and their Cleavage Products; Prepared Edible Fats; Animal or Vegetable Waxes

1. Goods of Chapter 15, which have been produced within the territory from third country materials of any other chapter, are eligible for United States Tariff treatment (e.g., from poultry fat, not rendered, of Chapter 2 to poultry fat, rendered, of Chapter 15).

2. Subheadings 1507.90, 1508.90, 1511.90, 1512.19, 1512.29, 1513.19, 1513.29, 1514.90, 1515.19 and 1515.29 provide for certain vegetable oils and their fractions, other than crude, not chemically modified. Goods of any of these subheadings, which have been produced within the territory from third country materials of any subheading in the Tariff other than these ten, are eligible for United States Tariff treatment (e.g., from crude soya-bean oil of 1507.10 to refined soya-bean oil of 1507.90).

3. Heading 15.16 provides for certain animal or vegetable fats and oils and their fractions which have not been subject to further preparation than the chemical processing specified therein. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from soya-bean oil of 15.07 to hydrogenated vegetable oil of 15.16).

4. Heading 15.17 provides for margarine and certain edible mixtures or preparations of animal or vegetable fats or oils, or of fractions thereof. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from corn oil of 15.15 to an edible mixture of vegetable oils of 15.17).

5. Headings 15.19 and 15.20 provide for certain fatty acids, acid oils and fatty alcohols as well as glycerol, glycerol waters and glycerol lyes. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from palm kernel oil of 15.13 to acid oils from refining of 15.19).

6. Subheading 1519.19 provides for industrial monocarboxylic fatty acids other than stearic acid, oleic acid and tall oil fatty acids. Goods of this subheading which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g., from animal fat of 1502.00 to distilled fatty acid of 1519.19).

7. Subheading 1519.20 provides for certain acid oils from refining. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g., from crude linseed oil of 1515.11 to acid oil of 1519.20).

8. Subheading 1520.90 provides for glycerol (glycerine), other than crude glycerol. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g., from crude glycerol of 1520.10 to glycerol of 1520.90).

SECTION IV (CHAPTERS 16 TO 24)

Prepared Foodstuffs; Beverages, Spirits and Vinegar;
Tobacco and Manufactured Tobacco Substitutes

1. Goods of any chapter of Section IV, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section IV, are eligible for United States Tariff treatment (e.g., from sugar of Chapter 17 to an edible preparation of Chapter 21 or from meat of Chapter 2 to a meat preparation of Chapter 16).

   An exception to this rule are the preparations of Chapter 20, which are specified in origin Rule 5 of this section, and which have been produced in the territory from fresh fruit, nuts or vegetables produced in a third country. Such preparations are not eligible for United States Tariff treatment (e.g., from fresh mushrooms of Chapter 7 to mushrooms preserved in water of Chapter 20).

2. Heading 17.04 provides for sugar confectionery (including white chocolate), not containing cocoa. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from sugar and sucrose of 17.01 to confectionery of 17.04).

3. Heading 18.06 provides for chocolate and other food preparations containing cocoa. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from cocoa paste of 18.03 to preparations containing cocoa of 18.06).

4. Subheading 1806.31 provides for chocolate and other food preparations containing cocoa, in blocks, slabs or bars that are filled. Subheading 1806.90 provides for chocolate and food preparations containing cocoa, other than sweetened cocoa powder and block, slabs or bars. Goods of these subheadings, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g., from cocoa powder of 1806.10 to preparations of 1806.31 or 1806.90).

5. For the purposes of United States Tariff treatment, the origin of certain fruit, nut and vegetable preparations is considered to be the country in which their fresh ingredients were produced. Thus, fruit, nut and vegetable preparations of Chapter 20 which are the result of territorial processing of third country fresh ingredients by freezing, preserving or roasting, and any processing incidental to these operations, are considered to be of third country origin. Under this rule, preserving (including canning) may be in water, brine or natural juices, and roasting may be either dry or in oil. However, the packing of third country fruit in sugar syrup in the territory affords territorial origin to the fruit preparation.

6. Subheading 2009.90 provides for mixtures of fruit juices or of vegetable juices. Goods of this subheading, which have been blended/produced in the territory and contain third country ingredients of other subheadings in the Tariff, are eligible for United States Tariff treatment providing that neither a single juice ingredient constitutes in single strength form more then 60 per cent by volume of the product, nor do juice ingredients from a single third country constitute in single strength form more than 60 per cent by volume of the product.

7. Headings 22.03 through 22.09 provide for beer, various wines and other fermented beverages, ethyl alcohol, spirits, liqueurs, other spirituous beverages, certain compound alcoholic preparations, vinegar and certain vinegar substitutes. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these seven, are eligible for United States Tariff treatment (e.g., from ginger of 09.10 to ginger beer of 22.06).

8. Heading 23.09 provides for preparations of a kind used in animal feeding. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from meals of 23.01 to the preparations of 23.09).

9. Headings 24.02 and 24.03 provide for certain products of manufactured tobacco and manufactured tobacco substitutes. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from tobacco stemmed/stripped of 24.01 to cigarettes of 24.02 or to smoking tobacco of 24.03).

An exception to this rule is that "homogenized" or "reconstituted" tobacco of subheading 2403.91, which has been produced within the territory from third country materials of any heading in Chapter 24, is not eligible for United States Tariff treatment (e.g., from unmanufactured tobacco or tobacco refuse of 24.01 to homogenized or reconstituted tobacco of 2403.91).

SECTION V (CHAPTERS 25 TO 27)

Mineral Products

1. Goods of any chapter of Section V, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section V, are eligible for United States Tariff treatment.

2. Headings 27.10 through 27.15 provide for certain processed petroleum oils, oils obtained from bituminous minerals as well as preparations and residues thereof; gaseous hydrocarbons, petroleum jelly, certain waxes, natural bitumen, natural asphalt and certain bituminous mixtures. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these six, are eligible for United States Tariff treatment (e.g., from crude petroleum oils of 27.09 to the processed petroleum oils of 27.10).

3. Heading 27.16 provides for electrical energy. When produced within the territory from third country materials of any other heading in the Tariff, electrical energy is eligible for United States Tariff treatment (e.g., from coal of 27.01 to electrical energy of 27.16).

SECTION VI (CHAPTERS 28 TO 38)

Products of the Chemical or Allied Industries

1. Goods of Chapters 28 through 38 which have been produced within the territory from third country materials of any chapter outside Section VI, are eligible for United States Tariff treatment (e.g., from fatty acids of Chapter 15 to soap of Chapter 34).

2. Goods of any subheading of Chapters 28 through 38, which have been produced within the territory from third country materials of any other subheading of Section VI, including changes within chapters, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from tricalcium citrate of 2918.15 to citric acid of 2918.14).

   Note: The 50 per cent content requirement specified above does not apply to the goods covered by Origin Rules 1 and 3 through 14 of Section VI.

3. Chapter 30 provides for pharmaceutical products. Goods of any heading of this chapter, which have been produced within the territory from third country materials of any other heading in the Tariff, including other headings in Chapter 30, are eligible for United States Tariff treatment.(e.g., from blood fractions of 30.02 to blood-grouping reagents of 30.06 or from hydrochloric acid of 28.06 to pickling preparations of 38.10).

   An exception to this rule is that medicaments of heading 30.04, consisting of medicaments of third country origin of heading 30.03 that have been put up in measured doses or in forms or packings for retail sale in the territory, are not eligible for United States Tariff treatment.

4. Chapter 31 provides for fertilizers. Goods of this chapter, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from chemical products of Chapter 28 to fertilizers of Chapter 31.)

5. Headings 32.08 through 32.15 provide for paints, varnishes, prepared driers and mastics, as well as certain colouring matter, inks and solutions consisting of polymers in primary form. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these eight, are eligible for United States Tariff treatment (e.g., from synthetic organic colouring matter of 32.04 to paints of 32.08).

6. Chapter 33 provides for essential oils and resinoids as well as perfumery, cosmetic and toilet preparations. Goods of this chapter, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from a surface active polyether polycondensation product of 34.02 to sun tan lotion of 33.04).

7. Headings 33.04 through 33.07 provide for certain perfumery, cosmetic and toilet preparations. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these four, are eligible for United States Tariff treatment (e.g., from lauryl methacrylate of 29.16 to the prepared room deodorizers of 33.07).

8. Chapter 34 provides for soap and other products mainly obtained through the industrial treatment of fats, oils or waxes as well as certain artificial products (e.g., surface-active agents, surface-active preparations and artificial waxes). Goods of any heading of this chapter, which have been produced within the territory from third country materials of any other heading in the Tariff, including other headings in Chapter 34, are eligible for United States Tariff treatment (e.g., from soap of 34.01 to cleaning preparations containing soap of 34.02).

9. Subheadings 3402.20 and 3402.90 provide for surface-active preparations, washing preparations and cleaning preparations, other than those of heading 34.01. Goods of these subheadings, which have been produced

within the territory from third country materials of any subheading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from a soap of 3401.20 to a preparation containing soap of 3402.20).

10. Chapter 35 provides for albuminoidal substances, modified starches, glues and enzymes. Goods of any heading of this Chapter, which have been produced within the territory from third country materials of any heading in the Tariff, including other headings in Chapter 35, are eligible for United States Tariff treatment (e.g., from albumin of 35.02 to glues of 35.03).

11. Chapter 36 provides for explosives, pyrotechnic products, matches, pyrophoric alloys and certain combustible preparations. Goods of any heading of this chapter, which have been produced within the territory from third country materials of any heading in the Tariff, including other headings in Chapter 36, are eligible for United States Tariff treatment (e.g., from nitrated derivatives of hydrocarbons of 29.04 to prepared explosives of 36.02 or from propellent powder of 36.01 to fireworks of 36.04).

12. Chapter 37 provides for certain photographic and cinematographic goods. Goods of this chapter, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from silver halides of Chapter 28 to photographic film of Chapter 37).

13. Heading 37.04 provides for photographic plates, film, paper, paperboard and textiles that are exposed but not developed. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, including other headings in Chapter 37, are eligible for United States Tariff treatment (e.g., from unexposed photographic plates and film of 37.01 to the exposed products of 37.04).

14. Headings 37.05 and 37.06 provide for photographic plates and films, as well as cinematographic film, that have been exposed and developed. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from unexposed film of 37.01 to exposed and developed film of 37.05 and 37.06).

15. Heading 38.08 provides for a variety of pesticides, fungicides, herbicides, disinfectants and similar products put up in forms or in packings for retail sale. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, including other headings of Chapter 38, are eligible for United States Tariff treatment providing that,

a) in the case of goods containing not more than one active ingredient, the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada; or,

b) in the case of goods containing more than one active ingredient, the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 70 per cent of the value of the goods when exported to Canada.

In determining the aforementioned percentages, the following are treated as originating in the territory:

i) any third country materials that are eligible for duty free treatment in Canada and the United States on a Most-Favoured-Nation basis;

ii) any third country materials imported into the territory which, if imported into the United States, would be duty free under a trade agreement that is not subject to a competitive need limitation.

An example of a change in tariff classification described in this rule, which would render goods eligible for United States Tariff treatment, is the transformation of acetic acid of 29.15 to insecticides of 38.08.

SECTION VII (CHAPTERS 39 AND 40)

Plastics and Articles Thereof; Rubber and Articles Thereof

1. Chapter 39 provides for plastics and certain articles thereof. Goods of any heading of this chapter, which have been produced within the territory from third country materials of any other heading in the Tariff, including other headings in Chapter 39, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from polymers of ethylene, in primary forms, of 39.01 to rigid tubes, pipes or hoses of polymers of ethylene of 39.17).

2. Chapter 40 provides for rubber and certain articles thereof. Goods of this chapter, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from tire cord fabric of Chapter 59 to tires of Chapter 40).

3. Goods of any heading of Chapter 40, which have been produced within the territory from third country materials of any other heading within that chapter, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from natural rubber of 40.01 to compounded rubber of 40.05).

Note: The 50 per cent content requirement specified above does not apply to the goods covered by the Origin Rules 4 through 6 of Section VII.

4. Headings 40.07 and 40.08 provide for thread, cord, plates, sheets, strip, rods and profile shapes of vulcanised rubber. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from natural rubber of heading 40.01 to vulcanized rubber thread of heading 40.07).

5. Headings 40.09 through 40.17 provide for certain articles of rubber. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these nine, are eligible for United States Tariff treatment (e.g., from compounded rubber of 40.05 to hoses of vulcanized rubber of heading 40.09)

6. Subheading 4012.10 provides for retreaded tires of rubber. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff are eligible for United States Tariff treatment (e.g., from used pneumatic tires of 4012.20 to retreaded tires of 4012.10).

SECTION VIII (CHAPTERS 41 TO 43)

Raw Hides and Skins, Leather, Furskins and Articles Thereof;
Saddlery and Harness; Travel Goods, Handbags
and Similar Containers; Articles of Animal Gut
(Other than Silk-worm Gut)

1. Goods of any chapter of Section VIII, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section VIII, are eligible for United States Tariff treatment (e.g., from glove leather of Chapter 41 to women's gloves of Chapter 42.)

2. Headings 41.04 through 41.11 provide for certain types of leather. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these eight, are eligible for United States Tariff treatment (e.g., from raw hides and skins of 41.01 to leather of 41.04)

3. Heading 43.02 provides for certain tanned or dressed furskins. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from raw furskins of 43.01 to tanned or dressed furskins of 43.02)

4. Headings 43.03 and 43.04 provide for certain articles of furskins as well as artificial fur and articles thereof. Goods of these headings, which have been produced within the territory from third country materials of

any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from furskins of 43.02 to articles of furskin of 43.03).

SECTION IX (CHAPTERS 44 TO 46)

Wood and Articles of Wood; Wood Charcoal; Cork and Articles of Cork; Manufactures of Straw, of Esparto or of Other Plaiting Materials; Basketware and Wickerwork

1. Goods of any chapter of Section IX, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section IX, are eligible for United States Tariff treatment (e.g., from plaiting materials of Chapter 14 to plaits and products of plaiting materials of Chapter 46)

2. Chapter 44 provides for wood, articles of wood and wood charcoal. Goods of any heading of this chapter, which have been produced within the territory from third country materials of any other heading of Chapter 44, are eligible for United States Tariff treatment (e.g., from wood in the rough of heading 44.03 to plywood of 44.12)

3. Not applicable.

4. Headings 45.03 and 45.04 provide for articles of natural cork as well as agglomerated cork and articles thereof. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from crushed cork of 45.01 to agglomerated cork of 45.04).

5. Heading 46.02 provides for certain articles made from interlacing, weaving or similarly assembling plaiting materials, and for articles of loofah. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from plaits of heading 46.01 to basketwork of 46.02)

SECTION X (CHAPTERS 47 to 49)

Pulp of Wood or of other Fibrous Cellulosic Material; Waste and Scrap of Paper or Paperboard; Paper and Paperboard and Articles Thereof

1. Goods of any chapter of Section X, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section X, are eligible for United States Tariff treatment (e.g., from wood pulp of Chapter 47 to paper of Chapter 48 or from paper of Chapter 48 to printed books of Chapter 49)

2. Headings 48.08 and 48.09 provide for certain paper, paperboard and copying or transfer papers, in rolls or sheets. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g. from sack kraft paper of 48.04 to creped, crinkled and bleached sack kraft paper of 48.08)

3. Headings 48.14 through 48.23 provide for certain articles of paper and paperboard. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these ten, are eligible for United States Tariff treatment (e.g., from coated paper in rolls or sheets of 48.10 to paper stationery of 48.17)

   An exception to this rule is that copying and transfer papers, duplicator stencils and offset plates of heading 48.16, which have been produced within the territory from third country copying and transfer papers in rolls or rectangular sheets of heading 48.09, are not eligible for United States Tariff treatment.

SECTION XI (CHAPTERS 50 TO 63)

Textiles and Textile Articles

Silk (Chapter 50)

1. Headings 50.04 through 50.06 provide for silk-worm gut and yarns of silk or of silk waste. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these three, are eligible for United States Tariff treatment (e.g., from raw silk of 50.02 to yarn of 50.04).

2. Heading 50.07 provides for woven fabrics of silk or of silk waste. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from silk yarn of 50.04 to woven fabrics of 50.07).

Wool, Fine or Coarse Animal Hair; Horsehair Yarn and Woven Fabric (Chapter 51)

3. Headings 51.06 through 51.13 provide for yarns and woven fabrics of wool, animal hair and horsehair. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these eight, are eligible for United States Tariff treatment (e.g., from fine animal hair of 51.05 to yarn of fine animal hair of 51.08).

Cotton (Chapter 52)

4. Headings 52.04 through 52.12 provide for cotton sewing thread, yarn and woven fabrics of cotton. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these nine, are eligible for United States Tariff treatment (e.g., from cotton,not carded or combed, of 52.01 to cotton sewing thread of 52.04 or from cotton, carded or combed, of 52.03 to woven fabrics of cotton of 52.08).

Other Vegetable Textile Fibres; Paper Yarn and Woven Fabrics of Paper Yarn (Chapter 53)

5. Headings 53.06 through 53.11 provide for yarn and woven fabrics of vegetable fibres other than cotton as well as paper yarn and woven fabrics of paper yarn. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these six are eligible for United States Tariff treatment. (e.g., from raw flax of 53.01 to flax yarn of 53.06 or from jute fibres of 53.03 to woven fabrics of jute of 53.10)

Man-made Filaments (Chapter 54)

6. Chapter 54 provides for man-made filaments and yarns, as well as woven fabrics of such filaments. Goods of this chapter, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from a primary form of polyester of Chapter 39 to textured polyester yarn of Chapter 54 or from pulp of fibrous cellulosic material of Chapter 47 to artificial filament yarn of Chapter 54).

Man-Made Staple Fibres (Chapter 50)

7. Headings 55.01 through 55.07 provide for man-made filament tow, staple fibres and waste. Goods of these headings, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from a primary form of Chapter 39 to synthetic staple fibers of 55.03).

8. Headings 55.08 through 55.16 provide for certain yarns and woven fabrics which are classified as products of man-made staple fibres. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these nine, are eligible for United States Tariff treatment. (e.g., from a synthetic staple fibre, carded, of 55.06 to a yarn of synthetic staple fibres of 55.09 or from a synthetic staple fibre, not carded, of 55.03 to a woven fabric of synthetic staple fibres of 55.15)

Wadding, Felt and Nonwovens; Special Yarns; Twine, Cordage, Ropes and Cables and Articles Thereof (Chapter 56)

9. Goods of any heading of Chapter 56, which have been produced within the territory from third country materials of any heading in the Tariff

outside Chapter 56, are eligible for United States Tariff treatment with the following exceptions:

(a) goods produced in the territory from third country materials of Chapter 54, which provides for man-made filaments as well as yarns and woven fabrics thereof.

(b) goods produced in the territory from third country materials of Chapter 55, which provides for man-made filament tow and staple fibres as well as yarns and woven fabrics thereof.

(c) goods produced in the territory from third country yarns or woven fabrics of the following headings:

(i) 51.06 through 51.13
(of wool, of animal hair and of horsehair)

(ii) 52.04 through 52.12
(of cotton)

(iii) 53.06 through 53.11
(of paper and of vegetable textile fibres other than cotton).

An example of a change in tariff classification described in this rule which renders goods eligible for United States Tariff treatment, is from carded cotton of 52.03 to wadding of 56.01.

Carpets and Other Textile Floor Coverings (Chapter 57)

10. Goods of any heading of Chapter 57, which have been produced within the territory from third country materials of any heading in the Tariff outside Chapter 57, are eligible for United States Tariff treatment with the following exceptions:

(a) goods produced in the territory from third country materials of Chapter 54, which provides for man-made filaments as well as yarns and woven fabrics thereof.

(b) goods produced in the territory from third country materials of the following headings:

(i) 51.06 through 51.13
(yarns and woven fabrics of wool, of animal hair and of horsehair)

(ii) 52.04 through 52.12
(yarns and woven fabrics of cotton)

(iii) 53.06 through 53.09
(yarns of paper and of vegetable textile fibres other than cotton and woven fabrics of flax)

(iv) 53.11
(woven fabrics of paper yarn and of vegetable textile fibres other than those of headings 53.09 and 53.10)

(v) 55.08 through 55.16
(man-made staple fibre yarns and woven fabrics made therefrom)

An example of a change in tariff classification described in this rule, which renders goods eligible for United States Tariff treatment, is from braids of 58.08 to braided carpets of 57.05.

Special Woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery (Chapter 58)

11. Goods of any heading of Chapter 58, which have been produced within the territory from third country materials of any heading in the Tariff outside Chapter 58, are eligible for United States Tariff treatment with the following exceptions:

a) goods produced in the territory from third country materials of Chapter 54, which provides for man-made filaments as well as yarns and woven fabrics thereof.

b) goods produced in the territory from third country materials of Chapter 55, which provides for man-made staple fibres as well as yarns and woven fabrics thereof.

c) goods produced in the territory from third country yarns or woven fabric of the following headings:

(i) 51.06 through 51.13
(of wool, of animal hair and of horsehair)

(ii) 52.04 through 52.12
(of cotton)

(iii) 53.06 through 53.11
(of paper and of vegetable textile fibres other than cotton)

An example of a change in tariff classification described in this rule, which renders goods eligible for United States Tariff treatment, is from silk fabric of 50.07 to a quilted textile product of 58.11.

Impregnated, Coated, Covered or Laminated Textile Fabrics; Textile Articles of a Kind Suitable for Industrial Use (Chapter 59)

12. Goods of any heading of Chapter 59 which have been produced within the territory from third country materials of any heading in the Tariff outside Chapter 59, are eligible for United States Tariff treatment with the following exceptions:

Goods of Chapter 59 are not eligible for United States Tariff treatment if they have been produced in the territory from third country woven fabrics of the following headings:

(a) 51.11 through 51.13
(of wool, of animal hair and of horsehair)

(b) 52.08 through 52.12
(of cotton)

(c) 53.09 through 53.11
(of vegetable textile fibres, other than cotton, and of paper yarn)

(d) 54.07 and 54.08
(of man-made filament yarns)

(e) 55.12 through 55.16
(of man-made staple fibres)

An example of a change in tariff classification described in this rule, which renders goods eligible for the United States Tariff treatment, is from yarn of jute of 53.07 to textile wall coverings of 59.05.

Knitted or Crocheted Fabrics (Chapter 60)

13. Goods of any heading of Chapter 60, which have been produced within the territory from third country materials of any heading in the Tariff outside Chapter 60, are eligible for United States Tariff treatment with the following exceptions:

(a) goods produced in the territory from third country materials of Chapter 54 which provides for man-made filaments as well as yarns and woven fabrics thereof.

(b) goods produced in the territory from third country materials of Chapter 55 which provides for man-made staple fibres as well as yarns and woven fibres thereof.

(c) goods produced in the territory from third country materials of the following headings:

(i) 51.06 through 51.13
(yarns and woven fabrics of wool, of animal hair and of horsehair)

(ii) 52.04 through 52.12
(yarns and woven fabrics of cotton)

(iii) 53.09 through 53.11
(woven fabrics of vegetable textile fibres, other than cotton, and of paper yarn)

An example of a change in tariff classification described in this rule, which renders goods eligible for United States Tariff treatment, is from carded wool of 51.05 to long pile fabrics of 60.01.

Articles of Apparel and Clothing Accessories, Knitted or Crocheted (Chapter 61)

14. Goods of any heading of Chapter 61, which have been both cut (or knitted to shape) and sewn or otherwise assembled in the territory from third country materials of any heading in the Tariff outside Chapter 61, are eligible for United States Tariff treatment, with the following exceptions:

Subject to the quota provisions in Rule 17, goods of Chapter 61 are not eligible for United States Tariff treatment if they have been produced in the territory from third country fabrics of the following headings:

(a) 51.11 through 51.13
(woven, of wool, of animal hair and of horsehair)

(b) 52.08 through 52.12
(woven, of cotton)

(c) 53.09 through 53.11
(woven, of vegetable textile fibres, other than cotton, and of paper yarn)

(d) 54.07 and 54.08
(woven, of man-made filament yarns)

(e) 55.12 through 55.16
(woven, of man-made staple fibres)

(f) 60.01 and 60.02
(knitted or crocheted)

An example of a change in tariff classification described in this rule, which renders goods eligible for United States Tariff treatment, is from yarn of combed wool of 51.07 to men's knitted jerseys of 61.10, providing that the materials were cut & sewn in the territory.

Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted (Chapter 62)

15. Goods of any heading of Chapter 62, which have been both cut and sewn in the territory from third country materials of any heading in the Tariff outside Chapter 62, are eligible for United States Tariff treatment with the following exceptions:

Subject to the quota provisions in Rule 17, goods of Chapter 62 are not eligible for United States Tariff treatment if they have been produced in the territory from third country fabrics of the following headings:

(a) 51.11 through 51.13
(woven, of wool, of animal hair and of horsehair)

(b) 52.08 through 52.12
(woven, of cotton)

(c) 53.09 through 53.11
(woven, of vegetable textile fibres, other than cotton, and of paper yarn)

(d) 54.07 and 54.08
(woven, of man-made filaments yarns)

(e) 55.12 through 55.16
(woven, of man-made staple fibres)

(f) 60.01 and 60.02
(knitted or crocheted)

Examples of changes in tariff classification described in this rule, which render goods eligible for United States Tariff treatment, are from non-wovens of 56.03 to garments of 62.10, and from woven fabric of silk of 50.07 to women's silk blouses of 62.06, providing that the materials were cut and sewn in the territory.

Other Made Up Textile Articles; Sets; Worn Clothing and Worn Textile Articles; Rags (Chapter 63)

16. Goods of any heading of Chapter 63, which have been both cut and sewn in the territory from third country materials of any heading in the Tariff outside Chapter 63, are eligible for United States Tariff treatment with the following exceptions:

a) goods produced in the territory from third country materials of Chapter 54 which provides for man-made filaments as well as yarns and woven fabrics thereof.

b) goods produced in the territory from third country materials of Chapter 55 which provides for man-made staple fibres as well as yarns and woven fabrics thereof.

c) goods produced in the territory from third country yarns or woven fabric of the following headings:

(i) 51.06 through 51.13
(of wool, of animal hair and of horsehair)

(ii) 52.04 through 52.12
(of cotton)

(iii) 53.06 through 53.11
(of paper and of vegetable textile fibres, other than cotton)

An example of a change in tariff classification described in this rule, which renders goods eligible for United States Tariff treatment, is from a knitted fabric of 60.02 to bed spreads of 63.04.

17. Articles of apparel and clothing accessories of Chapters 61 and 62, which were both cut and sewn in the territory from fabrics produced/obtained in a third country and which would otherwise not qualify for United States Tariff treatment under Rules 14 and 15, are nevertheless entitled to such tariff treatment in the annual amounts set forth below:

a) Non-wool apparel and clothing accessories - 10.5 million square yard equivalents;

b) Wool apparel and clothing accessories - 1.1 million square yard equivalents;

Goods imported from the United States in excess of the applicable annual quantity are subject to the Most Favoured Nation Tariff for the remainder of the annual period.

18. Not applicable.

SECTION XII (CHAPTERS 64 TO 67)

Footwear, Headgear, Umbrellas, Sun Umbrellas, Walking-Sticks,Seat-sticks, Whips, Riding Crops and Parts Thereof; Prepared Feathers and Articles Made Therewith; Artificial Flowers; Articles of Human Hair

1. Goods of any chapter of Section XII, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section XII, are eligible for United States Tariff treatment (e.g., from leather of Chapter 41 to parts of footwear of Chapter 64 or from cleaned feathers of Chapter 5 to prepared feathers of Chapter 67)

2. Subheadings 6401.10 through 6406.10 provide for completed footwear and certain parts thereof. Goods of these subheadings, which have been produced within the territory from third country materials of any subheading in the Tariff other than 6401.10 through 6406.10, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from various parts of footwear of 6406.20, 6406.91 and 6406.99 to footwear of 6403.51).

3. Headings 65.03 through 65.07 provide for certain hats, headgear and parts therefor. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these five, are eligible for United States Tariff treatment. (e.g.,from hat bodies of 65.01 to felt headgear of 65.03)

4. Headings 66.01 and 66.02 provide for umbrellas and sun umbrellas as well as walking-sticks, seat-sticks, whips, riding-crops and the like. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from an umbrella frame of 66.03 to a sun umbrella of 66.01)

5. Heading 67.01 provides for skins and other parts of birds with their feathers or down, feathers, parts of feathers, down and articles thereof. Goods of this heading which have been fabricated from feathers (such as fans, dusters or apparel) are eligible for United States Tariff treatment if the fabrication occurred in the United States and providing that feathers are the material or component which gives the fabricated goods their essential character. This rule does not apply to goods fabricated from down.

6. Heading 67.02 provides for artificial flowers, foliage and fruit, as well as parts and articles thereof. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from feathers of 67.01 to artificial foliage of 67.02)

7. Heading 67.04 provides for wigs, false beards, eyebrows and eyelashes, switches and the like of human or animal hair or of textile materials as well as articles of human hair not specified elsewhere. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from human hair of 67.03 to wigs of human hair of 67.04)

SECTION XIII (CHAPTERS 68 TO 70)

Articles of Stone, Plaster, Cement, Asbestos, Mica or Similar Materials; Ceramic Products; Glass and Glassware.

1. Goods of any chapter of Section XIII, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section XIII, are eligible for United States Tariff treatment (e.g., from marble, granite or sandstone of Chapter 25 to worked monumental stone of Chapter 68)

2. Subheading 6812.20 provides for yarn and thread of asbestos, or of mixtures with a basis of asbestos, or of mixtures with a basis of asbestos and magnesium carbonate. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g., from fabricated asbestos fibres of 6812.10 to yarn of asbestos of 6812.20).

3. Subheadings 6812.30 and 6812.40 provide for cords and string, as well as woven or knitted fabric, of asbestos, or of mixtures with a basis of

asbestos, or of mixtures with a basis of asbestos and magnesium carbonate. Goods of these subheadings, which have been produced within the territory from third country materials of any subheading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from asbestos yarn of 6812.20 to woven fabric of asbestos of 6812.40)

4. Subheading 6812.50 provides for clothing, clothing accessories, footwear and headgear of asbestos, or of mixtures with a basis of asbestos, or of mixtures with a basis of asbestos and magnesium carbonate. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g., from woven fabric of asbestos of 6812.40 to clothing of asbestos of 6812.50).

5. Subheadings 6812.60 through 6812.90 provide for various articles of asbestos, or of mixtures with a basis of asbestos, or of mixtures with a basis of asbestos and magnesium carbonate. Goods of these subheadings, which have been produced within the territory from third country materials of any subheading in the Tariff other than these three, are eligible for United States Tariff treatment (e.g., from fabricated asbestos fibres of 6812.10 to compressed asbestos fibre jointing of 6812.70)

6. Heading 68.13 provides for friction material and articles thereof, not mounted, for brakes, for clutches or the like, with a basis of asbestos, of other mineral substances or of cellulose, whether or not combined with textile or other materials. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from woven fabric of 68.12 to brake linings and pads of 68.13)

7. Headings 70.03 through 70.06 provide for certain cast, rolled, drawn, blown, float, ground or polished glass, as well as worked glass which is not fitted or framed with other materials. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these four, are eligible for United States Tariff treatment (e.g., from glass in the mass of 70.01 to blown glass of 70.04)

8. Headings 70.07 through 70.20 provide for certain safety glass, glass fibres and articles thereof as well as a variety of articles of glass or glassware. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these fourteen, are eligible for United States Tariff treatment (e.g., from float glass of 70.05 to multiple-walled insulating units of glass of 70.08)

9. Subheading 7019.20 provides for woven fabrics of glass fibres. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment (e.g. from yarn of glass of 7019.10 to woven fabric of 7019.20).

SECTION XIV (CHAPTER 71)

Natural or Cultured Pearls, Precious or Semi-Precious Stones, Precious Metals, Metals Clad with Precious Metal, and Articles Thereof; Imitation Jewellery; Coin

1. Goods of Chapter 71, which have been produced within the territory from third country materials of any other chapter in the Tariff, are eligible for United States Tariff treatment (e.g., from copper wire of Chapter 74 to imitation jewellery of Chapter 71).

2. Headings 71.13 through 71.18 provide for jewellery and parts thereof, imitation jewellery, goldsmiths' and silversmiths' wares and coin as well as certain articles of precious metal or metal clad with precious metal, of natural or cultured pearls, or of precious or semi-precious stones. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these six, are eligible for United States Tariff treatment (e.g., from semi-manufactured silver of 71.06 to tableware of 71.14).

   An exception to this rule is that pearls, temporarily or permanently strung but without the addition of clasps or other ornamental features of precious metals or stones are treated as a good of the country in which the pearls were obtained.

SECTION XV (CHAPTERS 72 TO 83)

Base Metals and Articles of Base Metals

1. Goods of any chapter of Section XV, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section XV, are eligible for United States Tariff treatment (e.g., from iron ore of Chapter 26 to iron and steel of Chapter 72).

   There are two exceptions to this rule. The first is that structures, parts thereof and shapes therefor of iron or steel of heading 73.08, which have been produced in the territory from third country angles, shapes or sections of heading 72.16 by the processes listed in Origin Rule 9 of this section, are ineligible for United States Tariff treatment.

   The second exception is that, in accordance with Origin Rule 21 of this section, unwrought lead of heading 78.01 and unwrought zinc of heading 79.01, which have been produced in the territory from third country materials of other chapters in the Tariff, are not eligible for United States Tariff treatment if the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute less than 50 per cent of the value of the goods when exported to Canada.

2. Headings 72.06 and 72.07 provide for primary forms and semi-finished products of iron or non-alloy steel. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from alloy pig iron of 72.01 or from remelting scrap ingots of 72.04 to semi-finished products of iron or non-alloy steel of 72.07)

3. Headings 72.08 through 72.16 provide for flat-rolled products, bars, rods, angles, shapes and sections of iron or non-alloy steel. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these nine, are eligible for United States Tariff treatment (e.g., from iron or non-alloy steel ingots of 72.06 to iron or non-alloy steel bars of 72.13)

4. Heading 72.17 provides for wire of iron or non-alloy steel. Wire of this heading, which has been produced within the territory from third country materials of any other heading in the Tariff is eligible for United States Tariff treatment (e.g., from semi-finished products of iron or non-alloy steel of 72.07 to wire of 72.17)

   An exception to this rule is that wire of heading 72.17, which has been produced within the territory from third country iron or non-alloy steel bars or rods of headings 72.13 through 72.15, is not eligible for United States Tariff treatment. This exception is designed to exclude wire of heading 72.17, which has been transformed from third country rods or bars, from United States Tariff treatment.

5. Headings 72.18 through 72.22 provide for ingots or other primary forms and semi-finished products of stainless steel. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these five, are eligible for United States Tariff treatment (e.g., from waste or scrap of 72.04 to stainless steel bars of 72.21).

6. Heading 72.23 provides for wire of stainless steel. Wire of this heading, which has been produced within the territory from third country materials of any other heading in the Tariff, is eligible for United States Tariff treatment (e.g., from semi-finished products of stainless steel of 72.18 to wire of 72.23)

   An exception to this rule is that wire of heading 72.23 which has been produced in the territory from third country goods of headings 72.21 or 72.22 is not eligible for United States Tariff treatment. This exception is designed to exclude wire of heading 72.23, which has been produced from third country rods or bars, from United States Tariff treatment.

7. Headings 72.24 through 72.28 provide for primary forms and semi-finished products of alloy steel other than stainless steel as well as hollow drill bars and rods of alloy or non-alloy steel. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these five, are eligible for United States Tariff treatment (e.g., from waste or scrap of 72.04 to rods of

alloy steel other than stainless steel of 72.27 or from semi-finished products of non-alloy steel of 72.07 to hollow drill bars and rods of non-alloy steel of 72.28)

8. Heading 72.29 provides for wire of alloy steel other than stainless steel. Wire of this heading, which has been produced within the territory from third country materials of any other heading in the Tariff, is eligible for United States Tariff treatment (e.g., from semi-finished products of alloy steel other than stainless steel of 72.24 to wire of 72.29)

   An exception to this rule is that wire of heading 72.29, which has been produced within the territory from third country goods of headings 72.27 or 72.28, is not eligible for United States Tariff treatment. This exception is designed to exclude wire of heading 72.29 which has been produced from third country rods or bars, from United States Tariff treatment.

9. Heading 73.08 provides for structures and parts of structures of iron or steel, as well as plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures, of iron or steel. Goods of this heading, which have been produced within the territory from third country materials of any heading in the Tariff, including other headings in Chapter 73, are eligible for United States Tariff treatment (e.g., from rods of iron of 72.15, or from tubes,pipes or hollow profiles of iron or steel of 73.06, to structures or parts of strucutres of 73.08).

   An exception to this rule is that goods of heading 73.08, which have been produced within the territory from third country angles, shapes or sections of iron or non-alloy steel of heading 72.16 are not eligible for United States Tariff treatment when such transformation is the result of the following processes:

   a) drilling, punching, notching, cutting, cambering or sweeping, whether performed individually or in combination;

   b) adding attachments or weldments for composite construction;

   c) adding of attachments for handling purposes;

   d) adding weldments, connectors, or attachments to H-sections or I-sections; provided that the maximum dimension of the weldments, connectors, or attachments is not greater than the dimension between the inner surfaces of the flanges of the H-sections or I-sections;

   e) painting, galvanizing, or other coating; or

   f) adding a simple base plate without stiffening elements, individually or in combination with drilling, punching, notching or cutting, to create an article suitable as a column.

10. Headings 73.09 through 73.26 provide for most manufactured articles of iron or steel. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these eighteen, are eligible for United States Tariff treatment (e.g., from pipe fittings of iron or steel of 73.07 to radiators of 73.22).

11. Headings 74.03 through 74.08 provides for refined copper and copper alloys, which are unwrought, as well as waste, scrap, master alloys, powders, flakes, bars, rods, profiles and wire of copper. Goods of these headings, which have been produced within the territory from third country materials of any heading of Chapter 74 other than these six, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from unrefined copper of 74.02 to refined unwrought copper of 74.03)

    An exception to this rule is goods of subheading 7408.19, which provides for wire of refined copper with a maximum cross-sectional dimension of 6mm or less. Wire of subheading 7408.19, which has been produced within the territory from third country materials of Chapter 74, other than those materials of headings 74.03 through 74.08, is eligible for United States Tariff treatment even if the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute less than 50 per cent of the value of the goods when exported to Canada (e.g., from unrefined copper of 74.02 to wire of refined copper of 7408.19).

12. Heading 74.09 provides for copper plates, sheets and strip, of a thickness exceeding 0.15 mm. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff are eligible for United States Tariff treatment (e.g., from refined copper, unwrought, of 74.03 to copper plates of refined copper of 74.09.)

13. Headings 74.10 through 74.19 provide for most manufactured articles of copper. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these ten, are eligible for United States Tariff treatment (e.g., from copper billets of 74.03 to copper tubes or pipes of 74.11).

    There is an exception to this rule for heading 74.13 which provides for stranded wire, cables, plaited bands and the like, of copper, not electrically insulated. Goods of heading 74.13, which have been produced in the territory from third country materials of any heading in the Tariff other than headings 74.10 through 74.19, are only eligible for United States Tariff treatement if the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada.

14. Heading 75.05 provides for nickel bars, rods, profiles and wire. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff are eligible for United States Tariff treatment (e.g., from unwrought nickel of 75.02 to nickel rods of 75.05).

15. Heading 75.06 provides for nickel plates, sheets, strip and foil. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment (e.g., from unwrought nickel alloy of 75.02 to nickel alloy sheets of 75.06).

16. Not Applicable.

17. Headings 75.07 and 75.08 provide for nickel tubes, pipes and tube or pipe fittings as well as other articles of nickel. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from nickel wire of 75.05 to netting of nickel wire of 75.08).

18. Headings 76.04 through 76.06 provide for aluminum bars, rods, profiles, wire, plates, sheets and strip. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these three, are eligible for United States Tariff treatment (e.g., from unwrought aluminum of 76.01 to aluminum sheets of 76.06).

19. Heading 76.07 provides for aluminum foil of a thickness not exceeding 0.2 mm. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff are eligible for United States Tariff treatment (e.g., from unwrought aluminum of 76.01 to aluminum foil of 76.07).

20. Headings 76.08 and 76.09 provide for aluminum tubes, pipes and tube or pipe fittings. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from aluminum sheets or strip of 76.06 to aluminum tubes or pipes of 76.08).

21. Headings 76.10 through 76.16 provide for most manufactured articles of aluminum. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these seven, are eligible for United States Tariff treatment (e.g., from bars and rods of 76.04 to aluminum structures of 76.10).

22. Unwrought lead of heading 78.01 and unwrought zinc of heading 79.01, which have been produced within the territory from third country materials of chapters other than Chapters 78 and 79, respectively, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from lead ore of 26.07 to unwrought lead of 78.01 or from zinc ore of 26.08 to unwrought zinc of 79.01).

23. Headings 78.03 through 78.06 provide for lead bars, rods, profiles, wire, plates, sheets, strip, foil, powders, flakes, tubes, pipes and tube or pipe fittings as well as other articles of lead. Goods of these headings, which have been produced within the territory from third country materials of any other heading in the Tariff, including these four, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from unwrought lead of 78.01 to lead pipe of 78.05).

    Note: See Rule 22 of this section regarding unwrought zinc of 79.01.

24. Headings 79.04 through 79.07 provide for zinc bars, rods, profiles, wire, plates, sheets, strip, foil, tubes, pipes and tube or pipe fittings as well as other articles of zinc. Goods of these headings, which have been produced within the territory from third country materials of any other heading in the Tariff, including these four, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from zinc rods or profiles of 79.04 to fabricated building components of zinc of 79.07).

25. Headings 80.03 and 80.04 provide for tin bars, rods, profiles, wire, plates, sheets and strip. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from unwrought tin alloy of 80.01 to tin rods of 80.03).

26. Headings 80.05 through 80.07 provide for tin foil, powders, flakes, tubes, pipes and tube or pipe fittings as well as other articles of tin. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these three, are eligible for United States Tariff treatment (e.g., from tin strip of 80.04 to tin tubes or pipe of 80.06).

27. Subheadings 8101.92, 8101,99, 8102.92, 8102.99, 8103.90, 8104.90, 8105.90, 8108.90 and 8109.90 provide for wrought articles of tungsten (wolfram) molybdenum, tantalum, magnesium, cobalt, titanium and zirconium. Goods of these subheadings, which have been produced within the territory from third country materials of any subheading in the Tariff other than these nine, are eligible for United States Tariff treatment (e.g., from unwrought magnesium of 8104.11 to bars of magnesium of 8104.90).

28. Subheading 8107.90 provides for wrought articles of cadmium. Goods of this subheading, which have been produced within the territory from third country materials of any other subheading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from unwrought cadmium of 8107.10 to articles of cadmium of 8107.90.)

29. Not applicable.

Section XVI (Chapters 84 and 85)

Machinery and Mechanical Appliances;
Electrical Equipment; Parts Thereof;
Sound Recorders and Reproducers, Television Image
and Sound Recorders and Reproducers, and Parts
and Accessories of Such Articles

1. Goods of any chapter of Section XVI, which have been produced within the territory from third country materials of any other chapter in the Tariff, including another chapter in Section XVI, are eligible for United States Tariff treatment (e.g., from diamonds of Chapter 71 to styli (needles for turntables) of Chapter 85, or from electric motors of Chapter 85 to refrigerators of Chapter 84).

   However, goods of heading 85.44, which have been produced within the territory from third country materials of any chapter in the tariff, are not eligible for United States Tariff treatment under this rule. Rule 8 of Section XVI sets forth the conditions under which goods of heading 85.44 may be afforded United States Tariff treatment. Heading 85.44 provides for insulated wire, cable and other insulated electric conductors as well as certain optical fibre cables.

2. Goods of any heading of Section XVI, other than headings 85.28 or 85.29, which have been produced within the territory from third country materials of any other heading in the Tariff, other than a parts heading, are eligible for United States Tariff treatment. (e.g., from an electric motor of 85.01 to a hair dryer of 85.16). See Rules 3 and 8 of Section XVI regarding qualifications for headings 84.07 and 85.44, respectively.

   Goods of headings 85.28 and 85.29, which have been produced within the territory from third country materials of any other heading in the Tariff are not eligible for United States Tariff treatment unless the condition outlined in Rule 4 of this section is met.

3. Heading 84.07 provides for spark-ignition reciprocating or rotary internal combustion piston engines. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from bearings of 84.82 to engines of 84.07).

4. a) Heading 85.28 provides for television receivers. Heading 85.29 provides for parts suitable for use solely or principally with the apparatus of headings 85.25 through 85.28 (i.e., apparatus used for the transmission or the reception of signals by means of electro-magnetic waves without any line of connection, radar apparatus, radio navigational aid apparatus, radio remote control apparatus, television cameras and television receivers).

Goods of headings 85.28 and 85.29, which have been produced within the territory from third country materials of any other heading in the Tariff, including these two, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from cathode-ray television picture tubes of 85.40 to television receivers of 85.28).

b) Goods of any heading of Section XVI, other than a parts heading, which have been produced within the territory from third country materials of any parts heading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from parts of marine engines of 84.09 to outboard motors of 84.07).

c) Goods of any subheading of Section XVI, other than a parts subheading, which have been produced within the territory from third country materials of any parts subheading in the Tariff, are eligible for United States Tariff treatment providing that the value of material originating in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from parts of steam turbines of 8406.90 to steam turbines of 8406.19).

There is an exception to this rule for goods of subheading 8471.92 which provides for input and output units of automatic data processing machines. Goods of subheading 8471.92, which have been produced within the territory from third country materials of any parts subheading in the Tariff, are eligible for United States Tariff treatment even though the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute less than 50 per cent of the value of the goods when exported to Canada. Subheading 8417.92 provides for input units and output units for automatic data processing machines.

5. Subheadings 8471.20 and 8471.91 provide for certain digital automatic data processing machines and digital processing units. Goods of these subheadings, which have been produced within the territory from third country materials of any subheading in the Tariff other than these two, are eligible for United States Tariff treatment (e.g., from a storage unit of 8471.93 to a digital processing unit of 8471.91).

6. Subheadings 8516.10 through 8516.79 provide for certain electro-thermic appliances such as water and space heaters, hair-dressing apparatus and hand dryers. Subheading 8516.80 provides for all electrical heating resistors except those of carbon. Goods of subheadings 8516.10 through 8516.79, which have been produced within the territory from third country resistors of subheading 8516.80, are eligible for United States Tariff treatment (e.g., from an electric resistor of 8516.80 to a hair dryer of 8516.31).

7. Heading 85.24 provides for recorded media, other than photographic or cinematographic goods of Chapter 37, for sound or other similarly recorded phenomena. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff, are eligible for United States Tariff treatment. (e.g., from unrecorded magnetic tapes of 85.23 to recorded magnetic tapes 85.24).

   Unrecorded media of 85.23 and recorded media of 85.24 are classified under their respective headings, even if they are accounted for with the apparatus for which they are intended (See Note 6 to Chapter 85 of the Tariff). This means that a gramophone record presented at time of accounting with a record-player of heading 85.19 remains classified under heading 85.24.

   Note: See Rule 4 of this section regarding television receivers of heading 85.28 and parts of various apparatus of heading 85.29.

8. Heading 85.44 provides for insulated wire, cable and other insulated electric conductors as well as certain optical fibre cables. Goods of this heading, which have been produced within the territory from third country materials of any other heading in the Tariff including another heading in Chapter 85, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from electrical plugs of 85.36 to cables fitted with connectors of 85.44).

Section XVII (Chapters 86 to 89)

Vehicles, Aircraft, Vessels and Associated Transport Equipment

1. Goods of any chapter of Section XVII, which have been produced within the territory from third country materials of any other chapter in the Tariff, including other chapters in Section XVII, are eligible for United States Tariff treatment (e.g., from rubber tires of Chapter 40 to trailers of Chapter 87).

2. Headings 87.01 through 87.05 provide for certain tractors and motor vehicles. Headings 89.01 through 89.05 provide for certain vessels and floating or submersible structures.

   Goods of any heading of Section XVII, other than headings 87.01 through 87.05 or 89.01 through 89.05, which have been produced within the territory from third country materials of any heading in the Tariff, other than a parts heading, are eligible for United States Tariff treatment.

3. a) Goods of any heading of Section XVII, which have been produced within the territory from third country materials of any parts heading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from parts of satellites of 88.03 to satellites of 88.02).

b) Goods of any subheading of Section XVII, which have been produced within the territory from a parts subheading of the same heading are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from vehicle parts of 8716.90 to farm, logging or freight wagons of 8716.39).

4. Headings 87.01 through 87.05 provide for certain tractors and motor vehicles. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these five, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from chassis of 87.06 or bodies of 87.07 to road tractors of 87.01).

In order to determine whether a vehicle originates in the territory for the purpose of this rule, instead of a calculation based on each vehicle, the manufacturer may chose to average its calculation of the value of materials originating in the territory and the direct cost of processing performed in the territory, over a twelve month period, on the same class of vehicles or sister vehicles (station wagons and other body styles in the same car line), assembled in the same plant.

Each of the following is considered to be a class of vehicles, for the purposes of the aforementioned calculations:

(a) minicompact automobiles - less than 85 cubic feet of passenger and luggage volume;

(b) subcompact automobiles - between 85 and 100 cubic feet of passenger and luggage volume;

(c) compact automobiles - between 100 and 110 cubic feet of passenger and luggage volume;

(d) midsize automobiles - between 110 and 120 cubic feet of passenger and luggage volume;

(e) large automobiles - 120 or more cubic feet of passenger and luggage volume;

(f) trucks;

(g) buses.

Vehicles, such as vans and jeeps, that may have more than one possible use, are considered to be either automobiles or trucks, depending on whether they are designed and marketed principally for the transport of passengers or the transport of cargo.

5. Headings 89.01 through 89.05 provide for certain vessels and floating submersible structures. Goods of these headings, which have been produced within the territory from third country materials of any heading in the Tariff other than these five, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from a hull or an incomplete vessel of 89.06 to a vessel for processing fishery products of 89.02).

Section XVIII (Chapters 90 to 92)

Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus; Clocks and Watches; Musical Instruments; Parts and Accessories Thereof

1. Goods of any chapter of Section XVIII, which have been produced within the territory from third country materials of any other chapter in the Tariff, including those in Section XVIII, are eligible for United States Tariff treatment (e.g., from power transformers of Chapter 85 to lasers of Chapter 90, and from time switches of Chapter 91 to measuring or checking instruments of Chapter 90.

2. a) Goods of any heading of Section XVIII, which have been produced within the territory from third country materials of any parts heading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from a part of a musical instrument of 92.09 to string musical instruments of 92.02).

   b) Goods of any subheading of Section XVIII, which have been produced within the territory from third country materials of any parts subheading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from projector parts of 9008.90 to slide projectors of 9008.10).

   There is an exception to this rule for goods of heading 90.09 which provides for photo-copying apparatus. Goods of heading 90.09, which have been produced within the territory from third country materials of any parts heading in the Tariff are eligible for United States Tariff treatment even if the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute less than 50 per cent of the value of the goods when exported to Canada (e.g., from parts of 9009.90 to thermo-copying apparatus of 9009.30).

3. Headings 90.05 through 90.32 provide for a wide variety of instruments, appliances, apparatus and other devices, certain parts and accessories, for optical photographic, medical, industrial, measuring, testing, analysing and controlling purposes, and the like. Goods of these headings, which have been produced within the territory from third country materials of any other heading in the Tariff including these twenty eight, are eligible for United States Tariff treatment (e.g., from optical elements for lenses of 90.02 to binoculars of 90.05).

   There is an exception to this rule for goods which have been produced within the territory from third country materials of a parts heading. Such goods shall be subject to Origin Rule 2.a) of Section XVIII (minimum 50 percent content requirement).

4. Headings 91.01 through 91.07 provide for watches, clocks and certain other apparatus for measuring time. For the purposes of United States Tariff treatment, goods of these headings are treated as products of the country in which the watch or clock movement they incorporate was produced. This Rule takes precedence over Origin Rule 2 of Section XVIII.

5. Headings 91.08 through 91.13 provide for watch and clock movements, certain cases and their parts, watch straps, watch bands and watch bracelets and parts thereof. Goods of these headings, which have been produced within the territory from third country materials of any other heading in the Tariff, including these six, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from unassembled or incomplete watch movements of 91.10 to assembled and complete watch movements of 91.08).

Section XIX (Chapter 93)

Arms and Ammunition, Parts and Accessories Thereof

1. Goods of Chapter 93, which have been produced within the territory from third country materials of any other chapter are eligible for United States Tariff treatment (e.g., from propellant powders or prepared explosives of Chapter 36 to munitions of war of Chapter 93).

2. a) Goods of any heading of Section XIX, which have been produced within the territory from third country materials of any parts heading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from a shotgun barrel of 93.05 to a shotgun of 93.03).

   b) Goods of any subheading of Section XIX, which have been produced within the territory from third country materials of any parts subheading in the Tariff, are eligible for United States Tariff

treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from cartridge wads or shot of 9306.29 to shotgun cartridges of 9306.21).

Section XX (Chapters 94 through 96)

Miscellaneous Manufactured Articles

1. Goods of any chapter of Section XX, which have been produced within the territory from third country materials of any other chapter in the Tariff, including another chapter in Section XX, are eligible for United States Tariff treatment (e.g., from bamboo of Chapter 14 or from plaiting material of Chapter 46 to seats of bamboo of Chapter 94).

   An exception to this rule is that bedding articles and similar furnishings of subheadings 9404.90, which have been produced within the territory from the third country woven fabrics set forth below, are not eligible for United States Tariff treatment:

   a) 50.07
      (of silk or of silk waste)

   b) 51.11 through 51.13
      (of wool, of animal hair and of horsehair)

   c) 52.08 through 52.12
      (of cotton)

   d) 53.09 through 53.11
      (of vegetable textile fibres, other than cotton, and of paper yarn)

   e) 54.07 and 54.08
      (of man-made filaments)

   f) 55.12 through 55.16
      (of man-made staple fibres)

2. a) Goods of any heading of Section XX, which have been produced within the territory from third country materials of any parts heading in the Tariff, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada.

   b) Goods of any subheading of Section XX, which have been produced within the territory from third country materials of any parts subheading in the Tariff, are eligible for United States Tariff treatment providing

that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada (e.g., from parts of slide fasteners of 9607.20 to slide fasteners of 9607.11).

3. Subheadings 9608.10 through 9608.39 provide for various types of pens and markers. Subheadings 9608.91 through 9608.99 provide for pen nibs, duplicating stylos, pen and pencil holders, and parts.

   Goods of subheadings 9608.10 through 9608.39, which have been produced within the territory from third country materials of subheadings 9608.91 and 9608.99, are eligible for United States Tariff treatment providing that the value of materials originating in the territory plus the direct cost of processing performed in the territory constitute at least 50 per cent of the value of the goods when exported to Canada.

4. Smoking pipes and pipe bowls of subheading 9614.20, which have been produced within the territory from third country blocks of wood or root, roughly shaped, for the manufacture of pipes, of subheading 9614.10, are eligible for United States Tariff treatment.

Section XXI (Chapter 97)

Works of Art, Collectors' Pieces and Antiques

1. Goods of Chapter 97, which have been produced within the territory from third country materials of any other chapter, are eligible for United States Tariff treatment (e.g., from prepared painting canvases of Chapter 59 and artists' paints of Chapter 32 to non-original paintings of Chapter 97).

TERRITORIAL CONTENT BY DOLLAR VALUE

Certain of the rules in the Schedule to the United States Tariff Rules of Origin Regulations provide for a minimum territorial content by dollar value (50 percent generally, 70 percent in one case). The equation is as follows:

> Value of Materials Originating in the Territory plus the Direct Cost of Processing/Assembling Performed in the Territory, expressed as a percentage of the Value of the Goods Exported to Canada.

The same equation is used to determine whether goods meet the 50 percent territorial content by dollar value requirement per criterion C in section 4 of the Memorandum.

When dealing with goods under criterion B of section 4 of the memorandum (goods produced in the territory in whole or in part from third country materials so as to meet the conditions of one or more of the rules in the Schedule to the United States Tariff Rules of Origin Regulations), if one of the applicable rules in the aforementioned Schedule provides for a minimum territorial content by dollar value, this content requirement is applicable not only to the material or materials subject to that rule but to all of the materials incorporated into the goods under consideration.

1. Value of Materials Originating in the Territory:

   a) This value consists of the price paid by the producer of the exported goods for each of the materials that are wholly of territorial origin; for each of the materials that were produced in the territory, in whole or in part from third country sub-materials, and that qualify under the Rules of Origin as originating in the territory; for each of the materials that were assembled in the territory, in whole or in part from third country sub-materials, and that qualify under the Rules of Origin as originating in the territory; and for any third country sub-materials which were used by the producer of the exported goods to make intermediate materials which qualify as originating in the territory under the Rules of Origin. Each of these materials must have been used or consumed in the production of the goods exported to Canada.

      In order to determine whether materials qualify as originating in the territory, the same process is followed as for the goods themselves. Thus, if a U.S. firm buys material M to process with other materials in the territory to produce goods G which are exported to Canada, we first must establish which criterion for claiming territorial origin may be applicable, A, B or C, per section 4 of the memorandum. If criterion B is applicable, we must follow the procedures set forth in section 7 of Appendix III and establish the tariff classification of M, identify the sub-materials involved, their tariff classification

and the applicable rules in the Schedule to the United States Rules of Origin Regulations (Appendix I), treating M as the goods and the sub-materials as the materials used to produce the goods in the territory. If any of the applicable rules contain a territorial content requirement by dollar value, a further territorial content calculation involving the changes from sub-materials to material M will be necessary. The sub-materials in each case will be goods imported into the territory from a third country which may go through several processes with other sub-materials and several producers before becoming the material M.

b) The Value of Materials Originating in the Territory also includes the costs described in section 8 of the memorandum which are incurred on the materials or sub-materials up to the point where the sub-materials are processed/assembled into the materials and the materials are processed/assembled into the goods exported to Canada.

Thus, if, for instance, the price paid for a sub-material by the U.S. producer does not include freight, insurance, packing or any other cost incurred in the transportation of the goods from the third country supplier's warehouse in West Germany to the producer's plant in Chicago, such charges are added to the price. Similarly, when a material is purchased from a warehouse or plant in the United States, the freight, insurance, packing and any other transportation costs from such warehouse or plant to the place in the territory where the material is processed/assembled into the goods exported to Canada are part of the value of the material for the purpose of determining the territorial content by dollar value.

Duties, taxes and brokerage fees paid in the territory in connection with the importation into the territory or the sale in the territory of the materials and sub-materials described in (a) above are also part of the Value of Materials Originating in the Territory.

While the cost of waste or spoilage and the value of any by-product or scrap are often taken into account in calculating the direct cost of the processing/assembling, if such is not the case, the cost of waste or spoilage resulting from the use of the materials and sub-materials described in (a) above, less the value of any by-product or scrap is added to (or deducted from, as the case may be) the Value of Materials Originating in the Territory.

Finally, the value of the goods and services described in sub-paragraph 1(b) of Article 8 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade is added to the value of materials or sub-materials originating in the territory to the extent that such values are not included in the price paid or payable for such materials and sub-materials. The wording of sub-paragraph 1(b) is set forth below.

Sub-paragraph 1(b):

the value, apportioned as appropriate, of the following goods and services where supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale for export of the imported goods, to the extent that such value has not been included in the price actually paid or payable:

(i) materials, components, parts and similar items incorporated in the imported goods;

(ii) tools, dies, moulds and similar items used in the production of the imported goods;

(iii) materials consumed in the production of the imported goods;

(iv) engineering, development, artwork, design work, and plans and sketches undertaken elsewhere than in the country of importation and necessary for the production of the imported goods.

c) In addition, export taxes or duties, charged by the government of third countries when materials are exported, and the price charged by a third country supplier, or by a third party, for quota entitlement, to the producer of goods exported to Canada are part of the value of the materials or sub-materials involved. On the other hand, the fees or commissions charged by the producer's agent in connection with the purchase of the materials are not part of the value of such materials.

d) It will be appreciated that the costs referred to in (b) and (c) above, whether or not incurred in the territory, will only be part of the territorial content of the goods exported to Canada if they are incurred in respect of materials or sub-materials which are considered to originate in the territory in accordance with the United States Tariff Rules of Origin Regulations.

2. Direct Cost of Processing/Assembling

The elements of this cost are described in section 9 of the memorandum. It should be noted that certain of the Direct Costs of Processing/Assembling are not costs incurred in the territory and, therefore, may not be added to the territorial content by dollar value but are part of the Value of the Goods Exported to Canada.

The applicable labour costs are the in-factory labour costs at the premises where the relevant processing or assembling takes place. These costs are all in-territory costs.

The cost of inspecting and testing the goods are costs incurred in the territory. If any inspection or testing of the goods was performed in a third country, the direct shipment rule would not be observed and the goods would not qualify for United States Tariff treatment regardless of the territorial content. However, if samples of the goods were tested in a third country, the cost of such testing would be part of the Value of the Goods Exported to Canada but not part of the Direct Cost of Processing/Assembling the goods in the territory providing that the samples tested were not exported to Canada.

The cost of energy, fuel, dies, molds and tooling, and the cost of maintenance and capital cost allowance on machinery and equipment which are used in the territory in the processing/assembling operation, are part of the Direct Cost of Processing/Assembling in the territory regardless of where such energy, fuel, dies, molds, tooling, machinery and equipment originated.

Development, design and engineering costs are part of the Direct Cost of Processing/Assembling in the territory only if such development, design and engineering is actually performed in the territory. Otherwise, these costs are part of the Value of the Goods Exported to Canada but are not part of the territorial content of the goods.

Rent, mortgage interest, and capital cost allowance, determined in accordance with the Income Tax Act and the regulations made under that Act, on the buildings, and property insurance premiums, maintenance, taxes and the cost of utilities for real property are part of the Direct Cost of Processing/Assembling in the territory when the buildings and other real property are used in the production of the goods exported to Canada. However, such costs, when applicable to buildings and other real property used for purposes other than the production of the goods, are not part of the Direct Cost of Processing/Assembling in the Territory nor of the Value of the Goods Exported to Canada.

Royalties, licensing and other similar payments for the rights to the goods are part of the Direct Cost of Processing/Assembling in the territory only if the person entitled to such payments is resident in the territory. If a person entitled to such payments, or to a portion of such payments, is not resident in the territory, the amount of the payment in question is part of the Value of the Goods Exported to Canada but is not part of the territorial content of the goods.

As distinct from royalties for the rights to the goods, royalty payments relating to a licensing agreement to distribute or sell the goods are not part of the Direct Cost of Processing/Assembling or of the Value of the Goods Exported to Canada.

Costs relating to the general expense of doing business, such as the costs of providing executive, financial, sales advertising, marketing, accounting and legal services and insurance other than the insurance referred to above are not part of the Direct Cost of Processing/Assembling or of the Value of the Goods Exported to Canada.

Likewise, brokerage fees relating to the importation and exportation of the goods, communication costs, including telephone and postal costs, and costs of packing the goods for export to Canada are not part of the Direct Cost of Processing/Assembling or of the Value of the Goods Exported to Canada. These costs must be distinguished from the brokerage fees and packing costs relating to the materials which are part of the value of such materials. See paragraph 1(b) above.

Finally, profits on the goods are not part of the Direct Cost of Processing/Assembling or of the Value of the Goods Exported to Canada.

3. Value of the Goods Exported to Canada

This value consists of the prices paid by the producer of the goods exported to Canada for all of the materials used or consumed in the production of such goods and for all of the sub-materials used to produce materials which were processed or assembled into such exported goods, regardless of their origin, plus the same costs, if not included in such prices, as described in 1. (b) and (c) above; and the total Direct Cost of Processing/Assembling as described in 2. above.

It will be appreciated that the value of goods when exported to Canada is the so-called factory cost of such goods, including materials, labour and factory overhead only.

PROCEDURES TO FOLLOW TO VERIFY THE ORIGIN OF GOODS WHEN THE UNITED STATES TARIFF IS CLAIMED

1. Obtain a description of the goods exported to Canada and their uses.

2. Identify the tariff classification of the goods exported to Canada.

3. Determine who obtained or produced the goods in the territory.

4. Ensure that the goods have met the direct shipment requirement (see section 3 of the memorandum) and the documentation requirements for proof or origin (see Memorandum D11-4-2).

5. Identify the criterion for claiming territorial origin (see section 4 of the memorandum):

   A. Goods wholly obtained or produced in the territory.

   B. Goods produced in the territory in whole or in part from third country materials so as to meet the conditions of one or more of the rules in the Schedule to the United States Tariff Rules of Origin Regulations.

   C. Goods assembled in the territory in whole or in part from third country materials, which are not subject to a tariff change.

6. A. Goods Wholly Obtained or Produced in the Territory

   Customs requires:

   a) an indication of the category which applies to the goods, per the interpretation of the term "goods wholly obtained or produced in the territory" (see section 1 of the memorandum);

   b) where applicable, any evidence available to support the claim that the conditions of the relevant category have been met (e.g., that the shellfish were, indeed, taken by a vessel registered with the United States and flying the flag of the United States); and

   c) where applicable, a list of the materials used to produce the goods in the territory and where and from whom each material was obtained, including any information available as to origin.

   6.1 It may be necessary to verify the information obtained in c) above with third parties and beyond to identify the origin of materials or sub-materials bearing in mind that each material must be wholly of territorial origin.

6.2 It may also be necessary to verify the information obtained in b) above with third parties.

7. B. Goods Produced in the Territory in Whole or in Part from Third Country Materials

Customs requires:

a) an explanation of the production process performed in the territory;

b) assurance that the goods have not undergone any processing or assembling in a third country subsequent to the processing or assembling in the territory; and

c) a list of the materials used to produce the goods exported with descriptions sufficient to establish the tariff classification of each (these must be all of the materials purchased or made by the producer of the goods exported to Canada and consumed in the production of such goods).

7.1 Customs will then determine the tariff classification of each of the materials and the applicable rules in the Schedule to the United States Tariff Rules of Origin Regulations. See section 7 of the Memorandum.

7.2 At this stage it may be possible to establish that the goods are of territorial origin without verifying the origin of any of the materials if,

a) there is an appropriate tariff classification change for each material;

b) there are no minimum territorial content requirements by dollar value in any of the applicable Rules;

c) special conditions which appear in some of the Rules are met or do not apply (see Rule 6 in Section IV, Rules 14, 15, 16, &17 in Section XI and Rule 9 in Section XV);

d) none of the provisions for deeming goods to be of third country origin apply (see Rule 5 in Section IV, Rule 2 in Section XIV and Rule 4 in Section XVIII); and

e) the processing or assembling which caused the change(s) in tariff classification took place entirely in the territory and the goods did not undergo any processing or assembling in a third country subsequent to the processing or assembling in the territory.

7.3 The origin of each material which has not undergone an appropriate tariff change in processing the goods in question must be established. Such a material may qualify in its own right as of territorial origin pursuant to criterion A, B or C. If the material so qualifies, it will not prevent the goods from being considered of territorial origin. If the material does not so qualify, the goods are precluded from entitlement to United States Tariff treatment.

7.4 This means that, when a material, which would preclude the goods from United States Tariff treatment if it was of third country origin, is the result of processing third country sub-materials in the territory, whether by the producer itself or by another firm, the transformation which must be considered in determining the applicable Origin Rule is between the sub-material(s) imported into the territory from a third country and the material in question. This could be a different Origin Rule or a different part of the Origin Rule covering the transformation between the material and the goods exported to Canada, one which might convey territorial origin to the material and thus enable the goods to qualify for United States Tariff treatment. There may be situations where this process must be applied to materials used to produce the sub-materials, and so forth.

7.5 If any of the applicable Rules provides for a minimum territorial content by dollar value, the origin of each of the materials must be established so that the territorial content of the goods exported to Canada may be calculated. In this respect, refer to Appendix II.

8. C. <u>Goods Assembled in the Territory in Whole or in Part from Third Country Materials</u>

Customs requires:

a) an explanation of the process of assembly performed in the territory;

b) assurance that the goods have not undergone any processing or further assembling in a third country subsequent to assembly in the territory;

c) a list of the materials which were assembled in the territory into the goods exported to Canada with descriptions sufficient to determine each material's tariff classification; and

d) an indication of the origin of each material involved including the name of the producing company.

8.1 The origin of each material is then established. This may necessitate the identification of the origin of sub-materials (sub-assemblies) and beyond. See Section 6.

8.2 At this stage, it may be possible to establish that the goods exported to Canada are not entitled to United States Tariff treatment because:

a) the goods are the goods described in Chapters 61, 62 or 63 of the Customs Tariff;

b) one or more of the materials, when imported into the territory, were not classified as unassembled or disassembled goods pursuant to paragraph 2(a) of the "General Rules for the Interpretation of the Harmonized System" as set out in Schedule I of the Customs Tariff or the subheading under which the goods and one or more of their component materials are classified does not provide for the goods and their parts; or

c) one or more of the component materials underwent a change in tariff classification when processed into the goods exported to Canada; and

d) the material or materials referred to in paragraphs b) and c) do not qualify in their own right as of territorial origin pursuant to criterion A, B or C.

8.3 If the above does not establish that the goods are not entitled to United States Tariff treatment, the territorial content by dollar value must be calculated. In this respect, refer to Appendix II.

Examples of the Use of the Schedule to the Regulations

An explanation of the Rules of Origin referred to in these examples may be found in Appendix I.

1. (a) A United States furniture manufacturer imports lumber (heading 44.07) from South America and upholstery material (heading 54.07), furniture braiding (heading 58.08) and knitted webbing (heading 60.02) from Asia and processes them with materials originating in the United States (casters, helical springs, steel screws, glue, stain) and with materials originating in Canada (non-woven material, wadding and thread), into upholstered chairs of heading 94.01. Rule 1 of Section XX entitles the Canadian importer to account for these upholstered chairs under the United States Tariff.

   (b) Some time later, the Canadian importer asks the United States furniture manufacturer to supply cushions covered with the same upholstery material as the chairs.

   The United States firm makes the cushions from the South American upholstery material (heading 54.07), and Canadian non-woven material, wadding and thread. The cushions are accounted for under subheading 9404.90 and, by reason of the exception in Rule 1 of Section XX, are not entitled to the United States Tariff.

2. (a) A United States clothing manufacturer imports snap fasteners (heading 96.06) and nylon thread (heading 55.08) from Asia and makes nylon windbreakers (heading 62.01) using knitted cuffing material (heading 60.02) of U.S. origin and woven nylon fabric (heading 55.12) and polyester lining material (heading 55.13) originating in the U.S. and cut and sewn in the territory. Rule 15 of Section XI entitles the Canadian importer of these windbreakers to account for them under the United States Tariff.

   (b) In order to lower prices to meet competition, the Canadian importer has the United States manufacturer source the woven nylon fabric (heading 55.12) in Japan. Thus, Rule 15 of Section XI no longer entitles the Canadian importer to account for the goods under the United States Tariff. Nevertheless, the windbreakers may still be entitled to the United States Tariff by reason of Rule 17 of Section XI. However, if the woven nylon fabric originating in Japan was sent to a third country in the Caribbean to be cut to shape, neither Rule 15 nor Rule 17 would apply and the windbreakers would be subject to the Most Favoured Nation Tariff.

3. A United States manufacturer buys material M1 from a U.S. supplier and material M2 from a third country, and processes the two materials in the territory into goods G which are exported to Canada. United States Tariff treatment is claimed. There is an applicable tariff change rule in the Schedule covering the processing of M2 to G but not one for M1 to G. It is necessary, therefore, to look into the origin of M1.

M1 is the result of processing sub-materials SM1 and SM2 in the territory. Both SM1 and SM2 come from a third country and there is a rule in the Schedule covering the processing of both SM1 and SM2 to M1 which affords territorial content to M1. Therefore, since M1 is of territorial origin and there is an applicable tariff change rule for the processing of M2 to G, G is considered to originate in the territory and is entitled to United States Tariff treatment.

4. (a) A United States manufacturer of small electrical appliances imports electric motors (subheading 8501.10) and heat resistors (subheading 8516.80) from Japan and assembles them into hair dryers (subheading 8516.31) using fans (subheading 8414.59), switches (subheading 8536.50), cords with connectors (subheading 8544.51) and plastic casings (subheading 8516.90) sourced in the United States. On shipment to Canada, United States Tariff treatment is claimed.

Rule 2 of Section XVI applies in the case of the motors and Rule 6, in the case of the resistors. It is understood that the other four materials are wholly of territorial origin. Thus,the hair dryers may be accounted for under the United States Tariff.

(b) The United States manufacturer of the hair dryers decides to lower his costs by sourcing the plastic casings in South Korea. Since this involves the transforming of materials of a parts subheading in Chapter 85 (8516.90) to another subheading in Chapter 85 which is not a parts subheading (8516.31), the hair dryers now are only entitled to United States Tariff treatment if they meet the 50 per cent territorial content requirement per Rule 4. c) of Section XVI.

The calculations necessary to establish territorial content are as follows:

	3rd Country Origin	Territorial Origin
Motor	$3.00	$
Resistor	0.75	
Fan		0.30
Casing	2.00	
Switch		0.30
Cord with Connectors		0.30
Assembling/Processing in the Territory		3.00
	$5.75	$3.90
Value of the Goods exported to Canada	$9.65	
Territorial Content (3.90 ÷ 9.65)	40%	

The 50 percent territorial content is not met and the hair dryers are not entitled to United States Tariff treatment .

(c) The United States manufacturer of hair dryers concludes that the motors must be sourced in the territory in order to benefit from the United States Tariff on export to Canada. Therefore, motors are ordered from a United States manufacturer of small motors.

An investigation at the production facilities of the motor manufacturer in Chicago, Illinois, discloses that the motors are not wholly of territorial origin, but were assembled in the United States from parts originating in the territory and parts originating in a third country. Therefore, we must determine whether the motors are of United States origin.

The motor components are as follows:

		Territorial Origin	3rd Country Origin
Stator bar assembly	(Item 8503.00.19)	$	$3.50
Commutator	(Item 8503.00.19)		0.25
Permanent Magnet (core)	(Item 8505.11.00)	0.30	
Bearings	(Heading 84.83)	0.10	
Wiring	(Heading 85.44)	0.10	
Casing	(Item 8503.00.19)	0.25	
	Totals	$0.75	$3.75
Direct cost of Assembling		0.50	
		$1.25	
Value of electric motor	(Item 8501.10.00)	$5.00	

The applicable rules for an electric motor under item 8501.10.00 are Rules 1, 2, 4(b) and 4(c) of Section XVI. Rule 4(c) applies in the case of the stator bar assembly and the commutator and, therefore, a 50 per cent territory content is required. Since territorial content is only 25 per cent (1.25 ÷ 5.00, per the above calculations) the motor is not of territorial origin. Therefore, the territorial content of the hair dryers remains unchanged and they are not entitled to United States Tariff treatment.

Clearly, the stator bar assembly or a major part of it must be sourced in the territory in order to achieve a territorial content of at least 50 per cent.

5. A United States producer buys materials M1 and M2 from other U.S. firms and material M3 from Japan, processes these three materials into goods G, exports G to Canada and claims United States Tariff treatment.

It is determined that M1 is wholly of territorial origin while M2 and M3 are not. There is an applicable tariff change Rule in the Schedule to afford territorial origin in the case of the processing of M2 to G without further condition. But the applicable Rule for processing M3 to G has a 50 per cent content requirement.

The determination of territorial content is based on the origin of each material used to produce the goods, as follows:

		Purchase Price	Cost
Materials	- M1 (wholly of territorial origin)	$100.	$
	- M2 (not wholly of territorial origin)	100.	
	- M3 (entirely of 3rd country origin)	210.	
Processing	- (M1 + M2 + M3 to G)		200.

It is clear from the above that the 50 per cent territorial content requirement for G will not be met unless M2 is determined to be of territorial origin.

An examination of M2 reveals that it was processed in the territory from sub-materials SM1 (third country origin) and SM2 (wholly of U.S. origin). There is a tariff change Rule which affords territorial origin for processing SM1 to M2 but it contains a 50 per cent content requirement. The figures are as follows:

		Purchase Price	Cost
Sub-materials	SM1 (third country origin)	$33.	$
	SM2 (wholly of U.S. origin)	17.	
Processing	(SM1 + SM2 to M2)		17.

Territorial content of M2 is 51 per cent ($17. + $17. divided by $17. + $17. + $33.). Thus, M2 is of territorial origin.

The territorial content for G can now be calculated, as follows:

	Territorial Origin	3rd Country Origin
M1	$100.	$
M2	100.	
M3		210.
Processing (M1 + M2 + M3 to G)	200.	
	$400.	$210.

Territorial content for G is 66 per cent ($100. + $100. + $200. divided by $100. + $100. + $200. + $210.)

Therefore, G is entitled to United States Tariff treatment.

6. (a) A United States producer buys materials M1, M2, M3 and M4, processes them into goods G which are exported to Canada, and claims United States Tariff treatment. The following information is obtained by Canadian Customs:

	Purchase Price	Cost
Materials M1 (purchased from another US firm)	$100.	$
M2 (purchased from another US firm)	200.	
M3 (purchased from another US firm)	500.	
M4 (purchased from a third country)	300.	
Cost of Processing (M1 + M2 + M3 + M4 to G)		400.

There is a tariff change Rule which affords territorial origin to G by reason of the processing of all four materials to G but there is a 50 per cent content requirement.

Investigation reveals that M1 and M2 meet the territorial content requirement but M3 and M4 do not. Territorial content is calculated as follows:

	Territorial Content	3rd Country Content
M1	$100.	$
M2	200.	
M3		500.
M4		300.
Cost of Processing (M1 + M2 + M3 + M4 to G)	400.	
	$700.	$800.

Territorial content is 47 per cent ($700. divided by $700. + $800.). Therefore, G is not entitled to United States Tariff Treatment.

b) However, the U.S. producer advises Canadian Customs that, while the figures are correct, Customs has misunderstood the manufacturing process. In fact, G is made by processing M1, M3 and M5 together. M5 is an "intermediate material" made by the producer by processing M2 and M4 in a separate operation at a cost of $200. Then, M1, M3 and M5 are processed into G at a further cost of $200. The producer contends that, by reason of the definition of Value of Materials Originating in the Territory (see subsection 8(2) of the memorandum), the origin of M5 must be determined and, if it is of territorial origin, the price of both of its components must be part of the Value of Materials Originating in the Territory. The term "intermediate materials" is defined in section 1 of the memorandum.

Canadian Customs agrees and determines the origin of M5 by referring to the Rules in the Schedule relating to the processing of M2 and M4 to M5. There is an entitling Rule but it has a 50 per cent content requirement. It is necessary, therefore, to determine the territorial content of M5, as follows:

	Territorial Content	3rd Country Content
M2	$200.	$
M4		300.
Processing (M2 + M4 to M5)	200.	
	$400.	$300.

Territorial content of M5 is 57 per cent ($400. divided by $400. + $300.). Therefore M5 is of territorial origin.

The calculations for G now become:

	Territorial Origin	3rd Country Origin
M1	$100.	$
M2	200.	
M3		500.
M4	300.	
Processing (M2 + M4 to M5)	200.	
(M1 + M3 + M5 to G)	200.	
	$1000.	$500.

Territorial content of G is 67 per cent ($1000. divided by $1000. + $500.) and G is entitled to United States Tariff treatment.

7. (a) A United States company assembles barbers' chairs in the United States and exports them to Canada. The parts are mostly of third country origin, but some are wholly of territorial origin. The barbers' chairs and all of the parts are classified under subheading 9402.10. The chairs will qualify as of territorial origin and be entitled to United States Tariff treatment if the 50 percent territorial content requirement specified in criterion C can be met. The details are as follows:

Parts for barbers' chairs, third country origin; purchase price	-	$80.
territorial origin; purchase price	-	$20.
Cost of assembling the chairs in the USA	-	$50.
Value of chairs exported to Canada	-	$150.
Territorial content of chairs	-	47%

Therefore, the chairs are not of territorial origin and do not qualify for United States Tariff treatment.

(b) In order to improve the territorial origin of the chairs so as to qualify for United States Tariff treatment, and not being able to source any more parts in the United States or Canada, the United States company arranged to purchase the seat and the headrest from a third country in an unupholstered condition. The upholstery work was done in the United States using upholstery material from Hong Kong (54.07) and wadding wholly of U.S. origin. The details are as follows:

Parts for barbers' chairs, third country origin; purchase price	-	$70.
territorial origin; purchase price	-	$20.
Cost of assembling the chairs in the USA	-	$50.
Upholstery material, third country origin, purchase price	-	$7.
Wadding, wholly U.S. origin; purchase price	-	$2.
Upholstering operation in USA	-	$6.
Value of chairs exported to Canada	-	$155.
Territorial content of chairs	-	50%

Since there is an applicable rule in the Schedule for the transformation of the upholstery material to a barbers' chair pursuant to origin criterion B (Rule 1 of Section XX) and since the territorial content of the barbers' chair meets the 50 per cent minimum specified in origin criterion C, the chairs are of territorial origin.

Provision Regarding Packaging Combining, Dilution and Circumvention

There may be instances where there are operations performed in the territory on third country materials and the resulting goods would, but for this provision, be considered to originate in the territory. These operations, consisting of packaging, combining, dilution and any process designed to circumvent the Rules of Origin, are described below.

When the only processing/assembling performed in the territory consists of one or more of these operations, the resulting goods are not goods originating in the territory and are not entitled to United States Tariff treatment.

Packaging:

For the purposes of this provision, packaging consists of simple packaging as opposed to complex or meaningful packaging and is the operation of placing goods into a container or holder for the purpose of sale. It does not include the placing of goods into containers or holders for a purpose other than sale or in addition to sale, or the performing of other operations in conjunction with packaging.

Combining:

For the purposes of this provision, combining consists of placing two or more materials together, except where such operation is expressly provided for in the Rules of Origin. For instance, the provision does not apply to the mixtures of juices mentioned in Rule 6 of Section IV, as described in Appendix I.

Combining does not include an operation which results in a new product with characteristics which are different from those of the respective materials.

Dilution:

For the purposes of this provision, dilution consists of the mixing of a material with water or with any other substance that does not materially alter the characteristics of the material diluted. No new substance is formed as a result of the dilution process.

Examples:

Packaging, combining and dilution include, but are not limited to the following processes:

a) the fitting together of a small number of components by bolting, glueing, soldering, etc.;

b) the placing together of various materials to form a kit;

c) the addition of substances such as anticaking agents, preservatives, wetting agents, colouring materials, etc.;

d) repackaging or packaging components together;

e) the packaging of goods on cards, in blister packs, boxes, jars & the like;

f) the blending of materials where no new substance with characteristics different from those of the respective ingredients is formed; and

g) the dilution of chemicals with inert ingredients to bring them to standard degrees of strength.

Packaging, combining and dilution shall not be taken to include processes such as the following:

a) the assembling of a large number of discrete components onto a printed circuit board;

b) the mixing together of bulk medicinal substances followed by the packaging of the mixed product into measured doses for retail sale;

c) the mixing of two or more substances together resulting in a reaction and the creation of a new chemical compound;

d) a combining and/or packaging operation preceded by or followed by another type of processing such as testing, sterilizing, freezing, etc.; and

e) the packaging of goods in air tight containers to preserve the contents.

Circumvention:

For the purposes of this provision, circumvention consists of any alteration or process performed on goods for the sole purpose of circumventing the United States Tariff Rules of Origin Regulations.

For example, when the processing/assembling in the territory, which is the basis for claiming United States Tariff treatment, will be reversed or substantially altered after the goods have been imported into Canada, and such processing/assembling was not performed for any commercial purpose other than to attempt to qualify the goods for United States Tariff treatment, the goods are not entitled to United States Tariff treatment.

General Rules

1. The goods were shipped directly to Canada from the United States with or without transshipment, per paragraph 25.2(6)(c) and section 17 and 18 of the Customs Tariff.

2. Proof of origin is given in acc. with the Proof or Origin Regulations (Customs memo D11-4-2).

Basis for Claiming United States Tariff Treatment

A. Goods wholly obtained or produced in the territory.

B. Goods produced in the territory, at least, in part, from third country materials.

C. Goods assembled in the territory, at least, in part, from third country materials.

Specific Rules and Categories

Regarding Basis A

- Nine categories set for in the interpretation definition description of the term "goods wholly obtained or produced in the territory".

- 50% or 70% content requirement

- other special conditions

Regarding Basis B

General Rules - Processing/assembly done entirely in territory
- No subsequent processing/assembly done in third country

Specific Rule - Tariff change rules, per schedule

Special Conditions & Deeming Provisions within these Rules

- 50% or 70% content requirements

- other special conditions

- deeming provisions

Regarding Basis C

General Rules
- not 61/62
- assembled in territory
- no tariff change
- unassembled/disassembled or parts/goods subheading
- 50% content
- no further assembly in third country

Provision Regarding Standard Accessories Spare Parts or Tools

Subject to the conditions set forth in subsection 5(2) of the memorandum, standard accessories, spare parts or tools (hereinafter referred to as accessories) are deemed to be of the same origin as the equipment, machinery, apparatus or vehicle (hereinafter referred to as equipment) to which they belong. Therefore, it is not necessary to determine the origin of such accessories.

Also, when it is necessary to determine the territorial content by dollar value of goods for purposes of the origin of goods requirements, only the value of the equipment is taken into account.

For the purpose of this provision, accessories include articles which are not essential to the operation of the equipment, nor are they normally sold separately as options. Also, they are, generally, not attached to the equipment to which they belong.

Accessories include, but are not limited to:

a) consumables that must be replaced at regular intervals, such as dust collectors for an air conditioning system;

b) a carrying case for a piece of equipment;

c) a dust cover for a machine;

d) an operational manual for a vehicle;

e) brackets to install a piece of equipment on a wall;

f) a bicycle tool kit or a car jack;

g) a set of wrenches to change the bit on a chuck;

h) a brush or other tool to clean out a machine;

i) an oil can to lubricate equipment; and

j) spares for essential parts that wear out or can be damaged, such as a drive belt for a machine or a spare tire for a car.

Accessories do not include:

a) optional items normally sold separately, such as air conditioners, AM/FM radios, gas tank cover locks, etc., for cars and zoom lenses for cameras;

b) spare parts which are major components of the equipment, etc., such as auxiliary power units; and

c) tools which are essential to the operation of the equipment, such as a set of bits, blades or cutters for a woodworking machine or a set of needles for a sewing machine.